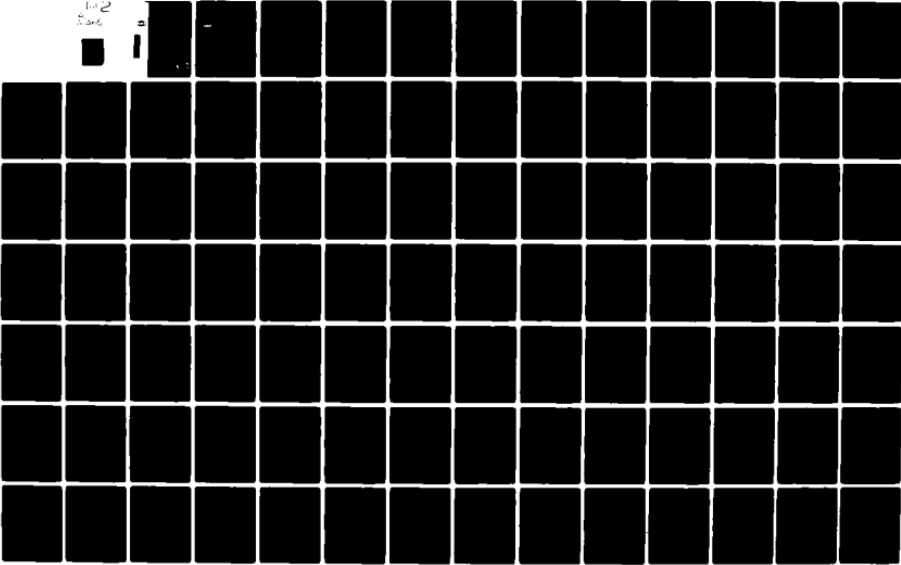


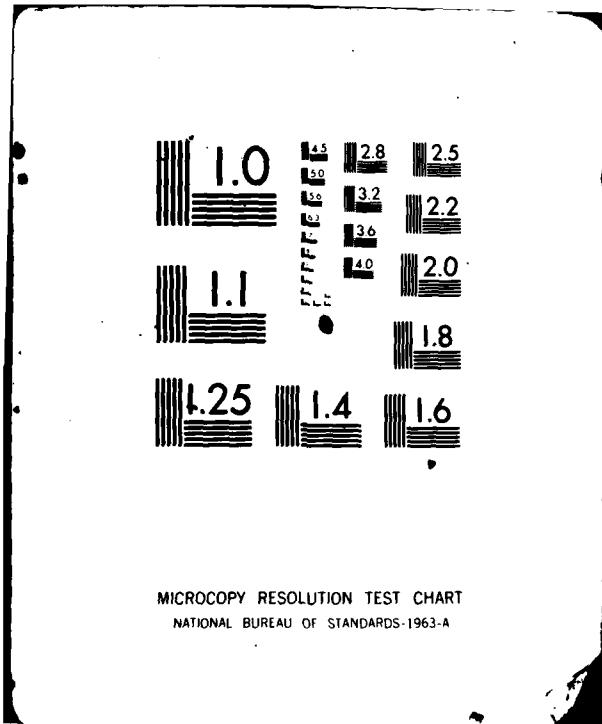
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## **STUDY OF THE POLITICAL AND MILITARY UTILITY OF U.S.-USSR ECONOMIC RELATIONS**

By: HERBERT S. LEVINE  
M. MARK EARLE, Jr.  
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Prepared for:

**OFFICE OF THE SECRETARY OF DEFENSE/  
INTERNATIONAL SECURITY AFFAIRS  
WASHINGTON, D.C. 20301**

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**Richard B. Foster, Director  
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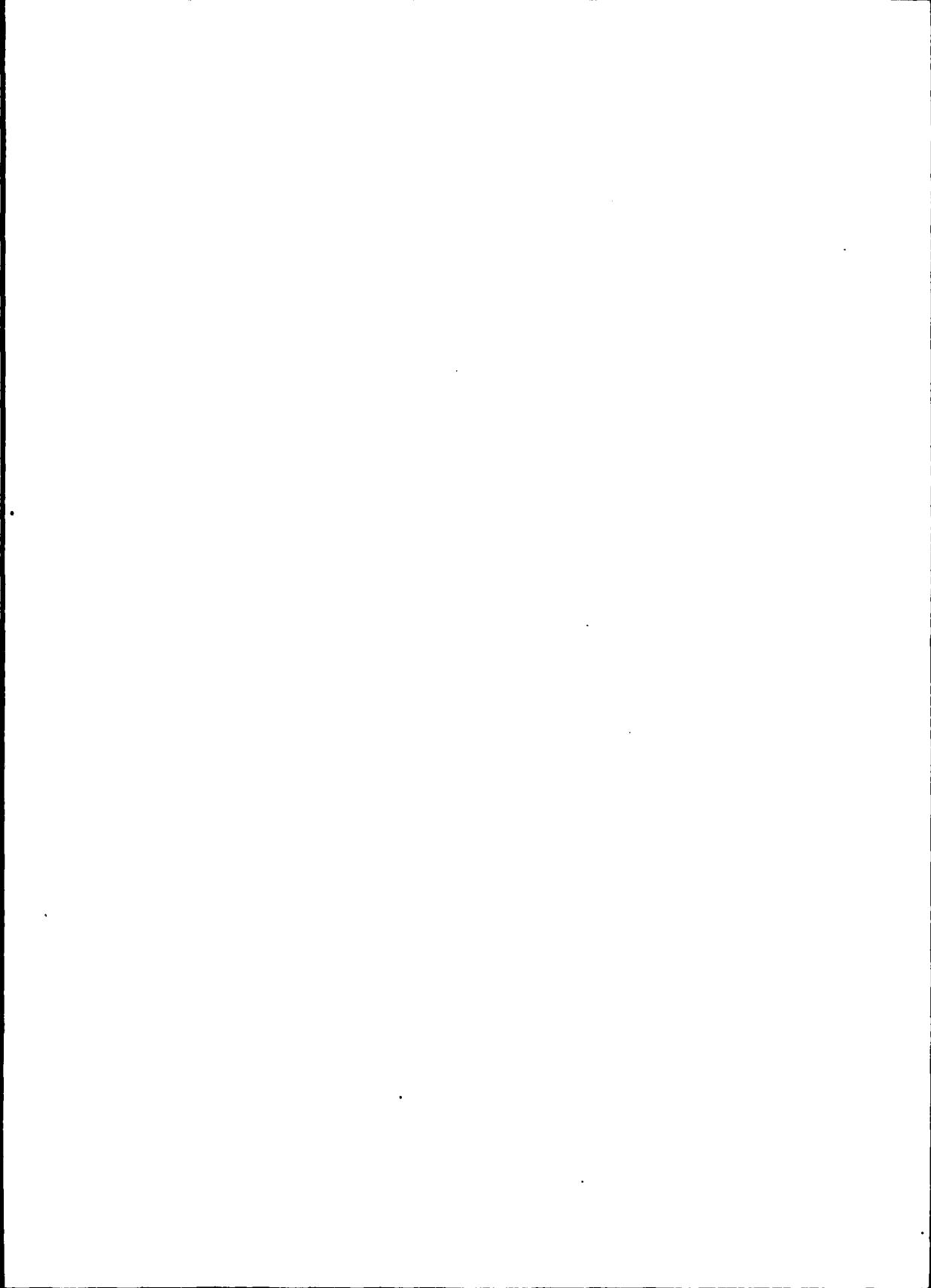
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## ABSTRACT

The study analyzes the problems and prospects for the exercise by the United States of economic leverage on the USSR. Specific attention is directed to (inter alia):

- (a) significance to the Soviet economy of foreign trade and technology transfer;
- (b) the structure and function of the USSR political administration and its implications for the application of leverage;
- (c) operational considerations in executing a leverage program derived from the U.S. institutional framework and existing leverage instruments.

The last chapter is a summary which outlines the key guidelines for evaluating leverage strategy.

## **FOREWORD**

**Political and Military Utility of U.S.-USSR Economic Relations**  
is a study conducted for the International Economic Affairs Directorate  
under the Assistant Secretary of Defense, International Security Affairs by  
SRI's Strategic Studies Center (SSC). The study was undertaken as part of  
the Center's Soviet and Comparative Economics Program which is directed by  
Dr. Herbert S. Levine, Senior Research Consultant as the SSC and Professor  
of Economics at the University of Pennsylvania and M. Mark Earle, Jr.,  
Assistant Director of the SSC and Director of the Center for Economic Policy  
Research. The study was authored by Dr. Herbert S. Levine, Arthur A. Zuehlke,  
Charles H. Movit, James E. Cole, Dr. Francis W. Rushing, M. Mark Earle, Jr.,  
and Richard B. Foster.

**Richard B. Foster**  
**Director**

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## KEY CONCEPTS

Economic Leverage: This is a condition of influence held by one nation-state (or states) over the behavior of another, based on a set of objective/material and subjective/perceptual factors which characterize their relationship. First, the nation-state subject to leverage must be economically vulnerable, such that a real need is present for which no substitutions are feasible and no alternative sources of supply exist other than the state (or states) exerting leverage. Second, the authoritative decisionmakers of the "levered" state must not only perceive their nation's economic vulnerability, but also acknowledge that the political and economic costs of foregoing satisfaction of the given need far exceed those associated with acquiescing to the influence of the state (or states) holding leverage.

Leverage Initiative: A purposeful goal-oriented action by a nation-state (or states) which involves the offering or withholding of economic benefits desired by another nation-state, with the intention to modify that state's policies and behavior in directions more favorable to the interests of the initiating party. A leverage initiative may thus be positive or negative in its impact on the subject nation-state, acting to "reward or punish," induce or compel a change in behavior.

Economic Interrelatedness: A scale of interaction of a national economy with the world economy running from autarky through increasing degrees of interaction to real interdependence involving the core of the national economy.

Technology Transfer: The transmission of production knowhow, embodied in capital equipment, entire turn-key plants, etc., or disembodied from one industrial environment to another in which it can be employed to improve factor productivity.

Agent Responsibility and Performance Monitoring: The set of administrative circumstances that exist in the USSR when an official of the CPSU or State is functionally responsible for the attainment of certain specified plan targets. The performance of such an official is necessarily measured by, and his potential is determined by, his meeting or exceeding these targets. All Soviet state officials (whether involved with economic, political, or military spheres) are monitored by a CPSU organization at each level of administration, as well as by the government organs in the state ministries specifically designed for monitoring plan fulfillment.

## I INTRODUCTION

The possible political/military utility to the U.S. of economic relations with the USSR has become a subject of controversy both among Government policymakers and in public fora. Interest in this aspect of economic relations has been stimulated by the expansion of U.S.-Soviet trade that followed the signing of the Basic Principles of Relations between the two countries on 29 May 1972; and a recognition in the West of the problems the Soviets are having in increasing labor and capital productivity, and thereby sustaining the growth and development of their economy. This interest has been further stimulated by a concern in the United States, over expanded U.S.-USSR economic relations, based on the argument that economic benefits from these relations are asymmetric in favor of the Soviet Union, given the U.S. lead in technology and the advantages held by the Soviet state trader when dealing with individual U.S. firms. Thus, political/military benefits are sought, from our economic relations with the USSR, to balance the putative net economic gains accruing to the Soviets.

Whether or not we can reap these political/military benefits depends on the "leverage" that we may possess in our economic relations with the Soviet Union.<sup>1</sup> How much economic leverage does the U.S. possess in its relations with the USSR? This is an extremely difficult question to answer. Perceptions of it that have shaped the positions taken in government and public debate differ widely.

---

<sup>1</sup> The use of the term "leverage" is an allusion to the mechanical advantage in physics gained from the utilization of a lever to lift a weight. In the present context, it refers to the positional advantage (the "lever") possessed by the United States in its economic relations with the Soviet Union ('The USSR needs these relations more than the U.S. does; the USSR stands to gain more economically from these relations than the U.S. does'), which the U.S. can use to pry non-economic, political/military benefits from the Soviet Union.

In this report, the attempt will not be made to provide a definitive assessment or measure of the degree of economic leverage possessed by the United States. Its aim is, rather, to develop the structure for such an assessment through a systematic analysis of the factors bearing on the potential economic leverage possessed by the U.S. and the ability of the U.S. to exercise the potential leverage it does possess.

The report starts with a discussion of one of the fundamental arguments for the existence of potential U.S. economic leverage--the Soviet need for trade with the United States. Qualitative and quantitative analyses of Soviet growth, productivity, and technology problems are presented in Chapter II. Use is made of the SRI-Wharton Soviet Econometric Model (SOVMOD) in both empirical analysis of the past and projective analysis of the future to assess the Soviet need for trade and modern technology from the United States.

A second factor, bearing on the potential for U.S. leverage, is the response of Soviet political leaders and decisionmaking bureaucracy to the types of cost-benefit trade-offs that they face in the presence of a U.S. economic leverage program. In Chapter III, various organizational aspects and operating principles of Soviet political and economic administration which bear on this issue are described, in the attempt to provide a picture of the anticipated Soviet response to a U.S. program of economic leverage.

The analysis of Soviet need for expanded economic relations with the United States and of anticipated Soviet response to a U.S. program of economic leverage provides the structure for an assessment of the potential economic leverage that the U.S. may possess. In order to proceed further with an assessment of a U.S. leverage program, it is necessary to examine the U.S. ability to manage, to orchestrate such a program. This is done in Chapter IV. Various aspects of U.S. political and economic

administration are discussed, including private sector, public-private, intra-government (inter-agency), and intra-Western bloc (inter-government) issues.

Chapter V, the final chapter, begins with a discussion of U.S. policy objectives that form the basis for the exercise of economic leverage. The thrust of the argument is that there exists a multiplicity of possible objectives to be attained through a program of economic leverage. These objectives range from those of great importance to the U.S., to those of lesser importance. Much of the confusion in the debates on leverage arises from the failure to delineate objectives, and from the oft-made implicit assumption that if the U.S. political/military policy objectives of greatest importance cannot be achieved, then the development of an economic leverage program is not worth pursuing. The authors of this report strongly oppose such a position. A well-formulated, balanced foreign policy involves instruments to achieve a range of different objectives. Decisions on instruments and programs are in their nature cost-benefit decisions. Where the cost is low, the benefit need not be very high to make the program worth introducing and developing. Issues of this sort are discussed in the first part of the concluding chapter.

In the following part of Chapter V, the conclusions of the preceding chapters are summarized and are used to develop a set of basic principles or guidelines, which in turn form the structure for the development and assessment of a leverage program.

## II SOVIET ECONOMIC DEVELOPMENT AND THE CONTRIBUTION OF FOREIGN TRADE

### A. Soviet Economic Performance and Prospects

The recent record of Soviet economic growth and a consideration of future growth prospects provide the framework for assessing the potential role of trade with the U. S. in Soviet economic development. Both official Soviet statistics and Western recalculations of those data indicate that the rate of growth of Soviet national output has declined in the postwar period. Western calculations of growth in Soviet GNP produce average annual rates of 7.4 percent for 1950-58, 5.7 percent for 1959-67, and approximately 5.1 percent for 1967-74.<sup>1</sup> While official Soviet series show higher rates of growth, those rates are declining also. Although output growth rates declined, rates of growth of inputs of capital and labor remained relatively stable over the same period.

Soviet economic performance in the postwar period, then, is marked by an erosion in the rate of growth of factor productivity, a major source of output growth in developed industrial economies. Average annual rates of growth for total factor productivity, based on Western calculations, declined from 2.7 percent in 1950-58 to 1.1 percent in 1958-67, and to 0.8 percent in 1967-74.<sup>2</sup> These calculations reveal that, in the last of these three periods, output has barely grown faster than inputs of capital and labor. The traditional Soviet growth model has relied, in effect, on the growth of the supply of inputs to provide a greater than proportional increase in output. Thus the strategy of extensive development of the economy has diminished in effectiveness.

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<sup>1</sup> Calculated by the Office of Economic Research (CIA) from data in established prices.

<sup>2</sup> Data as in #1 above calculations based on Cobb-Douglas production function with capital and labor coefficients of .6 and .4.

These trends have been projected into the 1976-1990 period via a long-run simulation of the SRI-WEFA Econometric Model of the Soviet Union (SOVMOD II version; see Table 1). The baseline projection for this period incorporates the analysts' judgments on feasibility and consistency of the projected development of the Soviet economy. The exogenous variables supplied include demographic projections reflecting an increasingly tight labor market due to both slow growth in total population and lower participation rates. Major problem areas for the Soviet economy, given the continued pursuit of traditional decisionmaking patterns into the 1976-1990 period, are evident from the baseline projection:

- a growing share of investment in GNP
- a concomitant fall in the share of consumption
- unavailability of large increments to the labor force
- little growth in agricultural production despite an assumption of favorable weather,
- little success in increasing factor productivity.

The first three problem areas outlined above are a part of both diminishing effectiveness of and resources for extensive development of the Soviet economy. The agricultural sector, seen to remain the lagging sector of the Soviet economy, is and most likely will continue to be, relative to its contribution to Soviet national output, too large a claimant on the labor force and investment capital. The poor performance of the agricultural sector projected for the 1980s is thus a major limitation on the supply of inputs to the much more productive industrial sector. Furthermore, unfavorable weather conditions would necessitate a greater drain on inputs for extensive development, given a continued desire on the part of Soviet leaders to maximize agricultural self-sufficiency.

Increasing factor productivity, then, is a requirement to improve economic performance in this period, in the face of manpower shortage and diminishing effectiveness of capital investment. The low rate of growth of factor productivity in the baseline projection for 1976-90 reflects past failures to achieve rapid technological advance in the Soviet economy on the

Table 1

**Baseline Projection for Major End Uses of GNP, USSR  
Selected Years, 1975-1990, in billions of rubles at  
1970 Prices**

<u>Year</u>	<u>Consumption</u> <sup>(a)</sup>	<u>Investment</u>	<u>Other Uses</u> <sup>(b)</sup>	<u>Total GNP</u>
1975	252.9	110.5	77.7	441.1
1980	315.6	135.4	104.1	555.1
1985	383.4	165.1	118.0	666.5
1990	432.7	208.0	141.4	782.1

**PERCENT SHARES**

1975	57.3	25.1	17.6	100
1980	56.9	24.4	18.7	100
1985	57.5	24.8	17.7	100
1990	55.3	26.6	18.1	100

**AVERAGE ANNUAL GROWTH RATES**

1975-1980	4.5	4.1	6.0	4.7
1980-1985	4.0	4.0	2.5	3.7
1985-1990	2.4	4.7	3.7	3.3

(a) civilian

(b) includes capital repairs, state expenditures, (on education, health, "official defense," etc.), inventory change, net exports, military pay and allowances, and other miscellaneous end-use categories.

basis of domestic innovation. Moreover, having obtained advanced technology from the Developed West, the Soviet economy has had difficulty assimilating it, diffusing it, and most of all, maintaining the level of technology at world levels. Many facets of the Soviet economy which have resulted in these failures have been identified in the literature, and will only be briefly discussed here, with some additional observations.

Among the Soviet economic institutions which affect the ability of the economy to absorb, master, and create new technology, the one which has received primary emphasis in both the Western and Russian literature on the Soviet economy is the managerial incentive mechanism that has more or less dominated the Soviet scene since the 1930s. Despite certain administrative changes in the last decade the incentive mechanism is still basically related to the fulfillment of performance targets, and thus there are two ways of assuring, or at least increasing the possibility of, success: (1) performance, and (2) keeping the target within reasonable distance. The second aspect of target-type rewarding is detrimental to the innovation process. Innovation always involves risk. The compensation for risk, contained in the reward for possible over-plan fulfillment, is reduced by the fact that success today will mean a higher target tomorrow, and success in the system requires the rather regular meeting of targets. Thus, managers resist innovation and try to keep targets low. There is much discussion in the Soviet Union on how to get around this problem, but nothing very effective has been introduced so far. Professor David Granick, in a recent SRI study,<sup>1</sup> argued that, indeed, nothing very effective should be expected. He maintains that what is necessary, is a change in the basic managerial philosophy, to move from making managerial income and promotion rewards direct and immediate functions of measurable objective performance indicators,<sup>2</sup> to a system where these rewards are decided upon by superiors, using subjective

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<sup>1</sup> D. Granick. Soviet Introduction of New Technology: A Depiction of the Process, SSC-TN-2625-7, Stanford Research Institute, 1975.

<sup>2</sup> This is essentially Taylorism, which was originally designed to increase the direct productivity of semiskilled workers, not the administrative and innovational activity of managers.

evaluation criteria. There is nothing in the Soviet literature, however, to indicate that such a change in managerial philosophy is in the offing.

A second factor inhibiting the absorption and diffusion of advanced technology in the Soviet Union involves the organization of research and development (R and D). A great deal of effort is put forth on research and development in the Soviet Union, but to a great extent it is separated from production, and insufficient attention is paid to development in comparison with research. As a result, a fair amount of new technology is generated or foreign technology identified, but the implementation and the diffusion of it are limited. For the reasons discussed above, the managers of industrial enterprises try to avoid incorporating new technology. One of the more promising reforms currently underway, the creation of large "scientific production associations," offers the promise of bringing the Soviet organizational relationship between research, development, and production more into line with the pattern dominant in the West.

Third, the technology transfer process is primarily a people-process. That is, technology is best transferred from firm to firm and from country to country by people (managers, engineers, sales engineers, etc.) rather than by publications (including blueprints) or products themselves. The Soviets have, in the postwar period, concentrated on the latter approaches while making minimal use of the former. Currently, however, they appear to be paying more attention to the people part of the process.

An important element of innovation is the creative destruction aspect of technical change--that is, when something new is done and it is successful, the old is destroyed. In a politicized, bureaucratized economy, such as the Soviet, those who operate the existing types of activities are much better able to protect themselves against the threat of new types of activities and new technologies. In general, bureaucracies tend to possess a high degree of risk aversion, and established bureaucratic rules and lines of authority hamper change and experimentation with new ways of doing things. Bureaucracies tend to penalize failure more than they reward innovative success. Bureaucracies tend to favor large-scale output--this

has always been true in Russia--and large-scale output itself increases the cost of change. Finally, bureaucracies establish firm lines of administration, preventing "invasion" of a stagnant branch by groups from a more dynamic branch. Such "innovation by invasion" has been a significant source of technology diffusion in the West.

Furthermore, the absence of a threat of bankruptcy in the noncompetitive Soviet economy has its effect. In competitive economies, the innovative process responds in a positive way to high rewards for successful innovation; it also responds to the fear of being driven out of business by dynamic competitors. Indeed, the spur to innovation from the latter is probably stronger than the former.

A final factor in the Soviet picture is that the Soviets have primarily imported foreign technology for domestic purposes rather than for exports which would have to be internationally competitive. Thus, once the new technology was in place, there was no pressure on those using it to keep it up to changing foreign levels, and the technology languished. This was also important in the Tsarist period. The success experienced by the Japanese in developing a self-sustaining technological advancement through the import of technology for international competitive purposes highlights the influence of the purpose of imported technology.

Economic reforms undertaken since 1965 have been directed, more or less, at overcoming these obstacles to rapid technological advance. The results of the reform in terms of the degree of domestic innovation have thus far been limited as has been the degree of decentralization introduced by the reforms. In the Ninth Five Year Plan (1971-75) and apparently again in the Tenth Plan (1976-80) gains in productivity have not been anticipated on the basis of major economic reforms, but rather Soviet leaders have opted for a major program of importing advanced technology and equipment from the West as a source of technological progress. As will be illustrated in the discussion of the role of foreign trade in Soviet economic development (Section C below), significant benefits for the Soviet economy have accrued from these imports. Indeed, in the next section it will be seen that the

fulfillment of the Tenth Plan may depend, in part, on a continued program of machinery imports from the West.

It is not clear, at the present, however, whether the current program is of a long-term character or is aimed, as have past periods of increased involvement in the world economy, at catching up to world levels of technology in a compressed period of time, after which foreign economic involvement will be sharply reduced. Rejecting the notion that Soviet leaders anticipate extensive economic interdependence with the West (which entails, by definition, substantial economic dependence on the West), it is quite possible that the Soviet Union will enter into a pattern of increased inter-relatedness with the West over the long term (see below, this chapter). It is clear, from the foregoing discussion, that the USSR has a strong need for Western technology due to economic performance problems evident from the past record which cast their shadow ahead into the 1980s. This "need", however, is not an unavoidable requirement. If in the eyes of Soviet leaders the political price of increased economic inter-relatedness is too high, then the Soviet economy can survive, at lower rates of development, without major infusions of Western technology.

## B. The Soviet Tenth Five-Year Plan

The preliminary report on the Tenth Five-Year Plan<sup>1</sup> acknowledged the underfulfillment of the Ninth Plan and projected rates of growth through 1980 considerably lower than those of the Ninth Plan. A reduction of aspirations had already been signalled by the Annual Plan and Budget for 1976, published two weeks earlier.<sup>2</sup> These less ambitious targets are an implicit admission that, as many Western observers felt at the outset, the goals for growth in productivity of the Ninth Plan were overoptimistic. While the poor harvests of 1972 and 1975 contributed to the underfulfillment of the Ninth Plan, the preliminary targets of the Tenth Plan are very close to official Soviet estimates of actual performance during the previous plan period. Thus, the decreasing opportunity to reap large benefits from the extensive development of the economy are recognized in the Tenth Plan (see Table 2).

The emphasis in the Tenth Five-Year Plan, particularly as presented and discussed at the 25th Party Congress in March 1976, is on increasing efficiency of production and quality of the product, and the acceleration of technical progress. A comparison of the Tenth Plan targets for investment and labor productivity illustrates this stress. The growth of new capital investment over the 1976-80 period is targetted at 24-26%, an unprecedented drop from the actual growth of 41.3% in 1971-75. The plan target of 30-34% for growth of labor productivity in 1976-80, on the other hand, compares favorably with the official Soviet estimate of 34% actual increase in labor productivity in the previous plan period. No major organizational reforms were anticipated in the plan document or in speeches at the Party Congress in order to reach accelerated rates of growth of factor productivity. The fulfillment of the Soviet Tenth Five-Year Plan, then, may well depend, in part, on a continued program of machinery imports from the West.

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<sup>1</sup> Pravda, 15 December 1975, pp. 1-6

<sup>2</sup> Pravda, 3 December 1975, pp. 1-3

Table 2

## MAIN INDICATORS OF THE 9th AND 10th FYPs

Indicator: Five-Year Growth Rates	9th FYP (1971-1975)		10th FYP (1976-1980)	
	Plan Target <sup>1</sup>	Actual <sup>2</sup>	Basic Guidelines	
National Income	38.6%	28.0%	24.-28.%	
Real Income per capita	31.0%	24.0%	20.-22.%	
Industrial Output	47.0%	43.0%	35.-39.%	
Industrial Labor Productivity	39.0%	34.0%	30.-34.%	
Industrial Employment	5.9%	6.7%	3.8%	
Agricultural Output (5 Year Average)	21.7%	13.0%	14.-17.%	
New Capital Investment (5 Year Total)	41.6%	41.3%	24.-26.%	
Retail Trade Turnover	40.0%	36.0%	27.-29.%	
Foreign Trade Turnover	33.-35.%	--	30.-35.%	

Sources: 1 N. K. Baybakov (General Ed.), Gosudarstvennyy pyatiletniy plan razvitiya narodnogo khozyaystva SSSR na 1971-1975 gody, Moscow, 1972.

2 Pravda, 7 March 1976.

There is every indication in the plan document and in the reports to the Congress by Party and government leaders that there will be no contraction of foreign economic relations, including those with the developed capitalist nations. Chairman of the USSR Council of Ministers Kosygin noted:

A characteristic feature of the 10th Five-Year Plan will be the deeper involvement of our national economy in the international division of labor and the continuing conversion of foreign economic cooperation to a long-term basis.<sup>1</sup>

Delivering the report of the Central Committee to the Congress, Communist Party General Secretary Brezhnev outlined the role foreseen for foreign trade in the Tenth Five-Year Plan period:

We see in foreign economic relations an effective means to permit the accomplishment of both political and economic tasks...We, like other states as well, are striving to utilize the advantages brought by foreign economic relations with the goal of the mobilization of additional possibilities for successfully accomplishing economic tasks and saving time, for raising the efficiency of production and speeding the progress of science and technology.<sup>2</sup>

Brezhnev indicated at the Congress that, in the next plan period, major objectives in trade with the developed capitalist nations would be to achieve improved structure and balance in trade and develop new forms of

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<sup>1</sup> Current Digest of the Soviet Press, XXVIII:10, April 7, 1967, p. 10.

<sup>2</sup> L. I. Brezhnev, "Otchet Tsentral'nogo komiteta KPSS i ocherednyye zadachi partii v oblasti vnutrenney i vneshney politiki," Materialy XXV s"ezda KPSS, Politizdat, (Moscow, 1976), p. 56.

economic, scientific, and technical cooperation. Specifically, intentions were stated to increase the purchase and sale of licenses, to increase the production of export goods, and expand imports of goods that will accelerate technical progress and goods to satisfy consumers' needs. Though the requirements for high technology imports were not enumerated, high-priority items of advanced technology to be pursued were listed in the speeches and thus represent potential areas of technology import:

- automated or semi-automated industrial processes in metallurgy, textiles, etc.
- super-power thermal energy stations and large turbo-generators
- high grade steels
- foundry equipment
- construction and roadbuilding equipment
- construction materials
- mixed-feed production.

Kosygin's report at the Congress also stressed the need to ensure that firms producing goods for export have an interest in meeting the product and marketing standards in the West. Methods proposed to meet these needs included concentrating export production at fewer firms and designating firms to produce exclusively for export.

A control solution (which incorporates analysts' judgments as to the projections' consistency and plausibility) of the SRI-WEFA Econometric Model (see Table III) was prepared to examine the feasibility and macroeconomic consequences of the Tenth Five-Year Plan.<sup>1</sup> The control solution against which the plan targets

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<sup>1</sup> See D. Green et al., "An Evaluation of the Tenth Five-Year Plan Using the SRI-WEFA Econometric Model of the Soviet Union," in The Soviet Economy in a New Perspective, Joint Economic Committee, U.S. Congress, USGPO, October, 1976.

Table 3

COMPARISON OF THE 10TH FYP WITH THE SOVMOD II CONTROL SOLUTION

<u>Indicator: Five-Year Rates of Growth</u>	<u>Basic Guidelines Targets<sup>1</sup></u>	<u>SOVMOD II Control<sup>2</sup></u>
GNP	--	24.9%
National Income	24.-28.%	--
Industrial Output	35.-29.%	39.4% (30.7) *
Industrial Labor Productivity	30.-34%	33.8% (25.4) *
Industrial Employment	3.8%	4.2%
Agricultural Output (5 Year Average)	14.-17.%	14.5% (12.5) *
Real Income per capita	20.-22%	18.3%
New Capital Investment (5 Year Total)	24.-26.%	25.0%
Total Consumption	--	24.4%
Foreign Trade Turnover	30.-35%	23.3%

\* Model projections converted to Soviet GVO projections using adjustment factors computed for 1966-1970.  
 The unadjusted SOVMOD II projections are given in parentheses. The adjustment factor is a standard approximation:  $[1. + g \text{ (Official)}] / [1. + g \text{ (Western)}]$ .

Sources: 1 Pravda, 7 March 1976.  
 2 SOVMOD II Control: 5 May 1976

were viewed draws on the plan itself only for indications of employment constraints and investment intentions. The model then projects economic performance on the basis of the past record of the Soviet economy. The overall conclusion of this evaluation was that the plan is feasible, despite divergence between several plan targets and model projections, such as those for growth in income and foreign trade and for some individual branches of industry. Some of the divergence may possibly be attributable to the allocation of investment by the model (on the basis of historical patterns) which differs somewhat from that of the Plan (the full pattern of allocation does not appear in the plan document).

A number of scenarios examining the impact of particular developments in domestic and external conditions and changes in policy on the performance of the Soviet economy during the 1976-80 period were undertaken with the SRI-WEFA Model. Three of these scenarios are important for the purposes of this discussion. The first examines the impact of a policy restricting imports over this period. The second and third illustrate the agricultural vulnerabilities of the Soviet economy.

The restriction of imports from the level anticipated in the control solution which is envisioned in the first scenario might result from one or both of the following factors:

- the infeasibility of the concomitant expansion of Soviet exports due to supply limitations and world demand conditions;
- the unacceptability to Soviet leaders and/or Western bankers of large hard currency deficits incurred by the higher level of imports

While the results of the import restriction scenario (see Table 4) show some improvement of the Soviet hard currency position over the control solution, a limited reduction in machinery imports from the Developed West over the 1976-80 period causes a decrease of one percentage point in the growth of industrial output over the period from that achieved in the control solution (i.e., a reduction of 2.5 percent of the growth anticipated in the control).

Table 4  
SCENARIO RESULTS: MAIN INDICATORS FOR 1976-1980

<u>Indicator: Rates of Growth</u>	<u>Control Solution</u>	<u>Scenario I: Import Restriction</u>
GNP	23.5% <sup>1</sup>	23.0% <sup>1</sup>
Industrial Output	39.4% <sup>2</sup>	38.4% <sup>2</sup>
Agricultural Output (5 Year Average)	14.5% <sup>2</sup>	14.5% <sup>2</sup>
Real Income <u>per capita</u>	18.3%	17.8%
New Capital Investment (5 Year Total)	25.0%	25.0%
Total Consumption	24.4%	23.5%
Foreign Trade Turnover (Real)	23.3%	16.1%

<sup>1</sup> Since GNP in 1975 is depressed because of the poor harvest, we have related a GNP five-year average (1973-77) of the Control Solution to the level of GNP in 1980.

<sup>2</sup> Model value-added projections were converted to Soviet GVO projections using adjustment factors computed for 1966-1970.

Scenario IIa and IIb were constructed to examine the impact of weather conditions on Soviet economic performance in 1976-80. The control solution assumed "normal" weather conditions; that is, the values for the two weather variables were set to their sample means over the 1959-72 period. Scenario IIa substitutes the better-than-normal conditions of 1966-70 while in Scenario IIb below-normal conditions of 1961-65 are substituted in the projection for 1976-80. In Scenario IIa (see Table 5) above-normal weather results in an increase in GNP and more than 10 billion rubles over the five-year period relative to the control solution. Scenario IIb shows the below-normal weather conditions entailing an almost 9 billion ruble reduction in GNP growth over the Tenth Five-Year Plan period. The greatest impact of the altered weather pattern falls on new capital investment. Variations in food consumption are seen to be compensated by movements in the consumption of durables.

Even under the "normal" weather conditions of the control solution, during the Tenth Five-Year Plan period, the agricultural sector will produce only about 12 percent of GNP (in established prices) while absorbing 27 percent of the labor force and 27 percent of total capital investment. The control solution has assumed that the level of Soviet grain imports will continue to be \$1 billion annually over the Tenth Plan period which must be deemed a minimum requirement for any significant growth in live-stock herds. Thus, the agricultural sector is a drain not only on labor and capital resources, but on hard currency as well, which must be diverted from machinery imports that improve factor productivity.

Table 5

SCENARIO IMPACT OF WEATHER ON SOVIET GROWTH, 1976-1980

Scenario I-a: 1966-1970 Weather Pattern      Scenario IIb: 1961-65 Weather Pattern

Variable (Units)	Scenario	Control Value 1976	Scenario Less Control Value			Sum 1976-1980		
			1976	1977	1978			
Gross National Product (B. 1970 Rubles)	IIa	469.30	3.50	-0.82	1.52	1.10	5.42	10.72
	IIb	469.30	-0.49	0.61	-6.85	-1.52	-0.70	-8.95
New Capital Investment (Total) (B. 1969 Rubles)	IIa	114.54	0.73	0.58	0.96	1.32	2.69	6.28
	IIb	114.54	-0.12	-0.02	-1.61	-2.05	-2.34	-6.14
Food Consumption	IIa	133.24	0.52	0.10	0.26	1.00	1.64	3.52
Durables Consumption (B. 1970 Rubles)	IIa	21.15	-0.05	-0.24	-0.41	-0.80	-1.24	-2.77
	IIb	21.15	0.01	0.05	0.23	0.89	1.57	2.75
Agricultural Production (B. 1965 Rubles)	IIa	74.77	3.53	-0.98	1.47	1.07	5.31	10.40
	IIb	74.77	-0.50	0.64	-6.95	-1.23	-0.52	-8.56

C. The Role of Foreign Trade

The traditional role of foreign trade in Soviet development strategy is one of periodic forays into the world economy, associated with a fitful pattern of economic development, superimposed on short-term gap-filling to overcome bottlenecks. The Soviet leaders, like their Tsarist predecessors, have, in the past perceived the need to catch up with the more advanced Western nations, and have embarked on a program of importing advanced foreign technology. Peter the Great brought in foreign technology and technologists on a massive scale to build an economic base to support his military ambitions. In the 1890s, the Tsarist Finance Minister Count Witte encouraged foreign capital and direct investment to support a spurt of accelerated industrialization and this resulted in transfer of advanced technology in a number of major industries.

In the NEP period of the 1920s, the Soviets instituted a program of foreign concessions to implement the reconstruction of the nation's industry after the Revolution and Civil War. The First Five-Year Plan, 1928-1932, involved an industrialization drive based on the centrally-directed economic scheme which has persisted to the present. That drive involved, as well, a massive effort to import foreign technology. In fact, imported capital goods accounted for nearly 15 percent of gross investment during the First Soviet Five-Year Plan.

In the next Five-Year Plan period, 1933-37, however, imports of foreign capital goods declined to about 2 percent of gross investment. While this decline may be attributed, in part, to a shift in the terms of trade against the Soviet Union and an inability to obtain further low-cost credits, the decrease in trade with the West must be ascribed largely to Stalin's policy of nondependence.

Thus, the historical overview has presented us with one possible scenario for the future role of foreign trade in Soviet development strategy. In this traditional pattern, intense periods of accelerated

growth through the import of technology were followed by a return to non-dependence, and as the West developed new technology, the Russians were unable to maintain the level of contemporary technology--after having caught up in a short period of time, they fell back.

Another possible scenario for the future role of foreign trade in Soviet development strategy may be postulated, however. This scenario is based on the more general pattern common to industrialized nations, rather than on the unique Russian and Soviet experience. This pattern is one of increasing involvement in the world economy as economic development proceeds.

According to long-term data compiled by Kuznets, in the pre-World War I and post-World War II periods, international trade flows for developed industrial nations appear to grow more rapidly than does domestic product, and while the share of total trade accounted for by the advanced nations remains at a fairly constant high level in the pre-World War I period, it shows marked growth in the post-World War II period.<sup>1</sup> Thus, the general pattern for industrialized nations appears to be one of increasing international involvement as economic development proceeds (the interwar period can be viewed as a recession-ridden anomaly in regard to the role of international trade).

That this is the pattern for capitalist nations has always been asserted in the Marxist-Leninist literature. In reference to Soviet foreign trade, following the political positions taken in the 1930s, the literature did not stress the economic efficiency advantages of foreign trade and thus did not argue that international economic relations of a socialist economy would increase with economic growth. After World War II, the advantages of the international division of labor within the socialist bloc and the expansion of intra-CMEA trade were stressed. The emphasis on the advantages

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<sup>1</sup> See S. Kuznets, Modern Economic Growth: Rate, Structure, and Spread, New Haven, 1966, Chapter 6.

of trade was muted, and the maintenance of the sovereignty of individual nations in the bloc was a key concept rather than increasing interdependence.

From the beginning of the 1970s, major emphasis has been placed on the expansion of Soviet economic relations with developed capitalist nations as well. A key official statement was made by Kosygin to the Supreme Soviet in 1971, at the inception of the Ninth Five-Year Plan:

With the transition to the practice of long-term agreements, which guarantee stable orders for industry, new possibilities are opened up in our relations with Western nations. Consideration can be given to the mutually beneficial cooperation with foreign firms and banks in the working out of a number of important economic problems, connected with the use of the natural resources of the Soviet Union, the construction of industrial enterprises, and the search for new technologies.<sup>1</sup>

The role of foreign trade anticipated in the Tenth Five-Year Plan was discussed in the previous section--Soviet economic relations with the Developed West are again stressed.

Are Soviet leaders opting for real economic interdependence with the West? Interdependence may be viewed as one end of a spectrum of involvement in the world economy. Autarky would define the other extreme. The intermediate range can be termed increased interrelatedness. While Soviet policy has consistently stressed economic nondependence on the West, increased interrelatedness may be evolving. This distinction can be made for two reasons:

- Sufficient economic development has been achieved to assure Soviet independence. Expanded economic relations with the West do not involve capitalist nations in the basic core of the Soviet economy, but operate at the margin to improve Soviet economic performance
- The international division of labor which is developing among industrialized nations involves intraindustrial specialization. The advantages of trade are then a

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<sup>1</sup> Gosplan SSSR, Gosudarstvennyy pyatiletniy plan razvitiya narodnogo khozyaystva SSSR na 1971-1975 gody, Moscow, 1972, p. 56.

result of economies of scale associated with long production runs due to narrower specialization.<sup>1</sup> Thus expansion of trade along these lines does not necessitate substantial changes in the trading partners' internal production structure.

While the arguments supporting the evolution of this second role for foreign trade in Soviet economic development suggest that the Soviet leadership would accept a greater degree of involvement in the world economy on a long-term basis, it is the interaction of the underlying phenomena of this evolution and the economic performance problems that would result in continuing Soviet expansion of economic relations with the West. If an assessment of the benefits to the Soviet economy of imports of advanced technology and equipment from the West confirms that they are a major source of increased factor productivity and thus economic growth, it is more likely that an abrupt contraction of economic relations with developed capitalist nations, such as took place after the First Five-Year Plan, will not occur.

The SRI-WEFA Econometric Model team has undertaken an evaluation of the benefits to the Soviet economy of the program of importing machinery from the Developed West. The results of the quantitative investigation are tentative and subject to revision, but the implications for the benefit to the Soviet Union of Western machinery are clear. The first part of the evaluation involved a counterfactual scenario. A control solution of the model was generated for the period 1968-73, and compared to a scenario for that period dubbed "A Retrospective Repeal of Detente" (see Table 6). In the scenario, the component of machinery imports due to the change in Soviet policy towards economic relations with the West associated with Detente was removed. Only the foreign/domestic composition of the industrial capital stock was adjusted by the analyst for the scenario. The results of the comparison indicate that if this component had not been shifted from machinery of domestic origin to imported machinery, about 15 percent

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<sup>1</sup> See B. Balassa, "Tariff Reductions and Trade in Manufactures Among the Industrial Countries," American Economic Review, LVI:3 (June, 1966).

of the growth rate of industrial production achieved in the control solution would have been foregone.

Dynamic multipliers, measuring the impact of imported machinery from the Developed West on Soviet industrial production, were calculated and compared to multipliers for increments of domestically produced machinery. Adjusting the ratio downward by the "rule of thumb" of three rubles of internal expenditure required to put in place one ruble of imported capital equipment, the result is that an increment of imported capital equipment has 3-4 times the impact on output of that of domestically-produced machinery. Thus, the importing of advanced technology and equipment from the West has had significant benefit for the Soviet economy, benefit of which the leadership must be aware.

A control solution for 1973-80 was prepared to examine the impact of imported Western machinery in the 1970s. The control was compared to scenarios with a 10 percent shift (increase and decrease) in the Soviet demand function for Western machinery (see Table 7). The impact of imports of Western machinery is lower in the 1970s than in the late 1960s, but is still large. In the latter (see Table 6), an approximately 20 percent lower stock of imported Western machinery at the end of the period is associated with a 15 percent lower growth of industrial output over the period, whereas in the former (see Table 7), a 5 percent lower (higher) stock of imported Western industrial machinery at the end of the period is associated with a 2 1/2 percent lower (higher) growth of industrial output over the period. The declining impact is to be expected with falling marginal product resulting from the accumulation of Western machinery during the Detente period. Imports of Western machinery do, therefore, hold the promise of significant benefit into the mid-term as well. This source of economic growth is increasingly important in view of performance pressures foreseen for the Soviet economy into the 1980s.

Table 6  
THE IMPACT OF DETENTE: MAIN INDICATORS

<u>Indicator</u>	<u>Detente Control</u>	<u>No Detente Scenario</u>
<u>Indicator</u>	<u>Percentage Growth, 1968-1973</u>	
Gross National Product	30.3	27.7
Industrial Production	33.7	28.4
Chemicals and Petrochemicals	33.9	26.6
Machine-Building	42.6	40.8
Foreign Trade Turnover (Real)	57.9	52.9
Aggregate Consumption	26.0	21.9
<u>Value in 1973</u>		
Imported Western Machinery (B. 1955 Rubles)	10.14	8.27
Hard Currency Reserves (M. Current \$)	-318.	878.

Table 7  
CONTROL SOLUTION AND DEMAND-SHIFT SCENARIOS, 1973-1980

<u>Indicator</u>	<u>Scenario B 10% Decrease</u>	<u>Control Solution</u>	<u>Scenario A 10% Increase</u>
<u>1975-1980 Growth</u>			
Gross National Product <sup>1</sup>	23.5%	24.0%	24.6%
Industrial Production <sup>2</sup>	39.5 (30.8)%	40.6 (31.8)%	41.7 (32.8)%
Petroleum Products	42.5 (36.6)%	43.4 (37.5)%	44.4 (38.5)%
Chemicals & Petrochemicals	52.5 (31.3)%	55. (33.5)%	57.4 (35.5)%
Machine-Building	53.6 (32.7)%	54.5 (33.5)%	55.0 (33.9)%
<u>1980 Value</u>			
B. 1955 Rubles			
<b>Stock of Imported Machinery</b>			
Aggregate Industry	18.41	19.57	20.72
Petroleum Products	3.18	3.37	3.57
Chemicals & Petrochemicals	3.45	3.67	3.88
Machine-Building	3.46	3.66	3.85

<sup>1</sup> Five-Year Moving Average for 1975.

<sup>2</sup> Western value-added indexes for Soviet industrial output are in the parentheses. These growth projections are converted to Official Soviet GVO statistics using adjustment factors determined for 1966-1970.

D. Conclusions

It is clear that Soviet leaders must be aware of the contribution of economic relations with the West, at least in the near-term. It seems probable from available evidence that these relations are not planned to contract, again, at least in the near term. A longer term commitment to increasing interrelatedness with the West involves a departure from the traditional role of foreign trade in Soviet development strategy. Such a commitment might be the result of the evolution of another pattern for foreign trade, typical of industrialized nations in general, interacting with economic performance pressures. This commitment could come via conscious policy decision or as a result of decisionmaking on narrower issues over time. Performance pressures due to the depletion of resources for extensive development and disappointing efforts at domestically-based intensive development would be eased through an increased level of involvement in the international economy over time.

It is important, in seeking leverage in other areas of US-USSR relations due to the Soviet desire for economic relations, to gauge the nature of the Soviet commitment to increased interrelatedness. In examining Soviet intentions it is necessary that two factors be kept in mind:

- Even without a shift away from the traditional role of foreign trade, it should be expected that some aspects associated with the shift, particularly increasing intraindustrial specialization, will occur.
- It is not to be expected that Soviet leaders will opt for a policy of real interdependence, which, by definition, would entail a measure of real dependence on the West. Dependence may be measured by the degree to which the economy would be disrupted should relations be abruptly contracted. The role of economic relations with the West would be at the margin of the Soviet economy, not the basic core, to improve economic performance. In the long run, however, some aspects of real interdependence may indeed develop.

Some of the developments which might signal this commitment, foster such a commitment, or both may be posited:

- decentralization of decisionmaking in foreign trade--decentralized decisionmakers pursuing economic rationality may opt for increased interrelatedness
- the allocation of productive capacity and R&D resources to the purpose of export expansion, as was hinted in discussion at the Party Congress
- The signing of long-term contracts, not only for Western sales to the USSR, but for the supplying of manufactured goods to the West by the Soviet Union
- continued expansion, during the Tenth Five-Year Plan period of Soviet imports of Western machinery, especially beyond the limits of input to a small number of very high priority projects.

While it can be demonstrated, quantitatively, that the USSR can benefit from economic relations and indeed needs those benefits to ease performance pressures, it is not a matter of maintaining economic viability. The commitment to expanding these relations on a long-term basis is thus an important factor in determining leverage potential.

### III THE SOVIET POLITICAL ADMINISTRATION AND ITS IMPLICATIONS FOR THE USE OF ECONOMIC LEVERAGE BY THE UNITED STATES

#### A. General Characteristics of Soviet Political Administration

It is the nature of the Soviet system that any external attempt to influence Soviet behavior will impact first and foremost on the political administration of the USSR, specifically the highest echelon of the CPSU. The CPSU Politburo and Central Committee exercise authority over all national matters: political, social, economic and military. These organs and the mass party seek to fully politicize individual behavior by organizing and planning a substantial part of human relationships within the society. The political system of the USSR has often been compared with large bureaucracies,<sup>1</sup> for it has in common with them an authoritarian political structure in which an elite strata rules in substantially complete autonomy from lower echelons of the organization. And, just as in large bureaucracies, the entire resources of Soviet society are directed toward a coordinated solution of national tasks by the CPSU elite, preeminent among which is the Politburo oligarchy.

Unlike most advanced Western democracies, in which the society and the polity are coincident or significantly overlap, the "political franchise" of the USSR is limited to at most a few thousand people: The elite of the CPSU and government apparatus. This "political franchise" incorporates the narrow strata of Party leaders with decisionmaking responsibility, as well as the somewhat larger spectrum of Party and government officials who participate in the planning and execution of these decisions.

Though attitudinal cleavages and conflicts over priorities may be detected or hypothesized among the Soviet elite, power is not distributed horizontally between the Party and other groups. The Party decides policy and the government apparatus administers and implements its decisions and

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<sup>1</sup> See Alfred Meyer, The Soviet Political Systems (New York: Random House) 1965.

though in principle some latitude may exist for government functionaries with respect to the manner in which policy is implemented, in point of fact there is very little. This is primarily due to the all-pervasive role of the CPSU. In the USSR, Party units exist in all organizations, and thus ensure that all policies adopted conform to the direction set by the CPSU. Party committees and Party leaders participate in management through all levels of the government--ranging from the local or district level in enterprises and collective farms, through the provincial and republic levels, all the way up to the Council of Ministers, the apex of the Soviet state bureaucracy. Moreover, at the republic and national level, the CPSU further exercises its influence by means of "interlocking directorates" of high party and government positions--senior party officials fill senior government posts. Since all important political and economic posts in the Soviet Union are within the Party nomenklatura, there can exist no centers of autonomous power. Under the nomenklatura system, all party positions of leadership, throughout the hierarchy, be they appointed or "elected," are determined by senior party echelons, primarily the central organs.<sup>1</sup> CPSU control is augmented by the size of the Party itself. It is a mass party with some 15.7 million members, comprising 9.3 percent of the adult population. Upward mobility in nearly all societal institutions is dependent upon party membership and preferably, early Komsomol affiliation.

While the dominant principle of Soviet political administration is the rule of the Party, several other principles or attributes of political administration in the USSR are important and need to be referenced here. These include the authoritarian nature of the state, the concept of "democratic centralism" and Party discipline, the highly centralized nature of political and economic decisionmaking, and the hierarchical structure of the CPSU and government apparatus.<sup>2</sup> These factors result in the consolidation of political power in the hands of the Politburo and Central Committee of the CPSU, the centralization of all important decisionmaking authority at the top of the Party-State hierarchy, and the observance of strict discipline and agreement

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<sup>1</sup> John A. Armstrong, Ideology, Politics, and Government in the Soviet Union 3rd Edition (New York: Praeger Publishers) 1974, p. 72.

<sup>2</sup> See Appendix A for a description of the Soviet Party and State apparatus.

in the CPSU once decisions are reached (democratic centralism). As a consequence, an understanding of the perceptions of this restricted elite is important and fundamental to the task of designing initiatives based on economic leverage and other means for influencing Soviet behavior. Specifically, Soviet elite perceptions of their adversaries, the nature of the international political system, the role and relative position of the USSR therein, and the strengths and vulnerabilities of the Soviet Union must be identified. The content of these perceptions may be inferred from two general sources of data--authoritative statements of elite decisionmakers and the record of internal and external policy behavior of the Soviet state. In this regard, the officially expressed goals and objectives of the leadership are valuable indicators of perception, revealing as they do shared attitudes, values, and priorities.

B. Some Implications of Soviet Political Administration for the Use of Economic Leverage by the United States

Politburo members, in their position at the apex of the Soviet CPSU and state hierarchy, have jurisdiction over all matters affecting Soviet domestic and foreign affairs. A concerted leverage program originating from the USSR's chief adversary, and aimed at influencing Soviet domestic or foreign policy behavior, would a priori be considered by the Politburo to be a vital policy concern. From an organizational standpoint, the responsibility for processing and responding to the leverage initiative would be primarily that of the CPSU Politburo, with appropriate support from the specialized departments of the Central Committee Secretariat, various state ministries, state committees, and various research institutes of the USSR Academy of Sciences. The data and assessments supplied to Soviet decisionmakers from these varied supporting institutions may exercise an important role in the formulation of a decision. However, it must be remembered that the perceptions and attitudes of the Politburo are critical, for only these men are in a position to make final judgments about the costs and benefits of alternative action, and to transform these judgments into national policy.

The application of economic leverage by the United States is a purposeful, goal-oriented action designed to alter or condition not only certain Soviet behavior, or a given policy, but more fundamentally, the Soviet leadership's ongoing assessment of the relative costs or benefits of their chosen behavior or policy. If the cost of altering a given policy (for example, an external policy that does not directly involve national security concerns of the USSR) is perceived by the Soviet leadership to be relatively minor, then the benefits of maintaining or expanding economic relations with the United States may be considered sufficient to lead to the latering of the given policy. This cost-benefit analysis will place great emphasis on the calculation of political costs to weigh against economic benefits. This proposition seems the more likely since Politburo, higher CPSU and Soviet state leaders will evaluate a U.S. leverage initiative within the Soviet cognitive structure of shared values, images, and ideologically conditioned conceptions of the "hostile" and "aggressive" capitalist world, the "life and death struggle" between the two social systems, and the "historically predestined" victory of Socialism. (See Appendix B for a discussion of the Soviet World View and "commitment to detente.") Moreover, since the leaders of the Soviet Union appear to be extremely sensitive to threats (real or imagined) to the sovereignty of the USSR and the authority and legitimacy of the CPSU, it is unlikely that they might determine the Soviet response to a U.S. leverage attempt primarily on the basis of the economic benefit to the USSR, or perceive the influence attempt dispassionately as a "normal" or expected feature of bilateral relations with another nation-state.

Recognizing that the highly centralized and hierarchical nature of Soviet political administration makes influencing the CPSU Politburo and Central Committee Secretariat the primary task of a U.S. leverage attempt, some generalizations may be derived concerning the feasibility of such an enterprise. Looking at Soviet political administration and the "central organs" of the CPSU as a "target" of U.S. attempts at influence (which employ economic levers), these generalizations might be couched in terms of the advantages and disadvantages such a political organization displays.

The Soviet administrative apparatus, hierarchical and centralized, receives its direction, guidance, and management from the top. With reference to a cybernetic or "systems" analogy, this apparatus is "governed" and controlled by the central organs of CPSU. The Politburo and Secretariat through their subordinate party affiliates in all state institutions, fulfill the control and feedback functions in this system. The CPSU, through its structure of local, oblast, republic, and central organs, monitors and measures the performance of state institutions, be they economic, scientific, military, or social in purpose and function.

With respect to the Soviet economy,<sup>1</sup> the responsibility for meeting planned targets, for example, the output of an industrial concern, is borne not only by the enterprise manager and state officials, but also by the local party secretary. Indeed, one of the key principles of Soviet economic and political institutions is agent responsibility for meeting performance targets, the constant monitoring and measuring of performance, and the awarding of monetary and status rewards as a function of performance relative to targets. As was argued in the previous chapter, this has contributed to the risk aversion of Soviet economic officials and to their reluctance to innovate. Thus it can be hypothesized that the party secretary in a given firm's CPSU committee, and his superiors in the oblast secretariat, may be actively interested in methods for increasing performances, especially the utilization of new technology including that available from the West. This hypothesis of the active role that local party organs might play in the technology transfer process is supported by observations made on the role local party secretaries play in other economic areas such as reconciling problems of coordination between firms and expediting production. For example, if Factory A requires additional shipments of a special subassembly produced by Factory B in order to fulfill its output quota, and Factory B is not forthcoming, then the party network is utilized to resolve the issue. The party secretary of Factory A may contact and inform his superiors in the oblast secretariat of his firm's difficulties. The oblast party secretariat may then direct the local party organization in Factory B to accelerate deliveries of the needed subassembly to Factory A. In the relations between such primary party organizations as the committee

<sup>1</sup> Refer to Appendix A for an elaboration of state institutions involved with management of the economy.

in the firm or gorkoms (city committees), and the oblast secretariat, strict discipline and obedience is obligatory.

It is through mechanisms like that described above that the CPSU exerts its "governance" over the production process, and takes an active role in spurring the economy. Party control is enhanced through its authority over the individual manager who, as an important party member, sits on the firm's party committee. Moreover, under the strict nomenklatura system referenced earlier, the career potential of any aspiring CPSU member is dependent upon the senior party echelon's assessment of his "performance," which necessarily includes the individual's success in fulfilling, and if possible, surpassing the economic growth targets and other objectives determined by the central organs. In contrast, the state bureaucrat's or industrial manager's interest lies in meeting planning targets. To exceed them by appreciable margins invites instability and change—the output targets would thus be adjusted upward, introducing greater stress on his enterprise and reducing the reward from innovation. In this sense, the introduction of foreign or innovative technology may be viewed by state officials and managers as potentially upsetting to whatever equilibrium they have established in their ministry or firm's relationship with the central party organs, pressuring from above. This hypothesis on the differing attitude among party and bureaucrat/managers as to the desirability of technological innovation seems to be supported by the record of CPSU Central Committee resolutions, elite statements and official press urging the fuller and more rapid realization of the "fruits of the scientific-technological revolution" in the development of the economy.

It is alluded to above, that the CPSU, and particularly its central organs (the Politburo and Central Committee Secretariat), manage or "govern" the Soviet administrative apparatus, and serve as the control and feedback instruments which maintain the "equilibrium" of the system. Pursuing this cybernetic analogy, it can be said that the Party, in its control function, regulating and maintaining the order of the system, faces "threats" or forces, both from within the system and the external environment, which tend to, if left unchecked, destabilize and disorder it. These entropic tendencies may be ameliorated by the acquisition and application of "information" for the more efficient regulation of the system. One source

of this "information" is computer and data processing technology which enhances the Party's control and feedback function as well as contributing to an increase in the volume and efficiency of industrial output. This adds to the Soviet interest in importing high technology from the West.

Certain implications can be drawn from these observations about the role of the CPSU and the Soviet system, in respect to the question of the possible "advantage" such an administrative system might offer as a target of leverage attempts. In a general sense, some "advantage" for U.S. leverage efforts is inherent in the preeminent role played by the Politburo. Since these same individuals are responsible for all major decisions of national policy, they have the power "to deliver" on agreements with the United States, should they so choose. Their authority is virtually absolute--political power is not diffused among competing governmental entities as in the case in the United States. Moreover, these men sit atop a vast bureaucracy, troubled by inertia, which exhibits resistance to innovation, particularly, as has been indicated, in the economic sector. Efforts to spur the economy and heighten efficiency of the entire administration must originate from the top--the central party organs. Thus, the Politburo has the interest of maintaining the pressure for technological innovation on its own bureaucracy. Because this process appears to be effected in a highly centralized fashion, by a thin upper strata of CPSU officialdom, a tendency to limit such efforts to main priorities exerts itself. In the Soviet context, these main priorities often take the form of "campaigns": highly publicized projects replete with the personal identification of senior CPSU figures (e.g. KAMAZ, Togliatti/VAZ).

Another important consideration is the Soviet leaders' penchant for "quiet" or secret negotiations. In the everyday affairs of the Soviet political administration access to information is severely restricted and compartmentalized. This is especially true with respect to matters in the realm of national security and foreign affairs, most strikingly revealed in the SALT negotiations. Here Soviet representatives appeared to have incomplete information on their own nation's strategic weapons systems, and often had to refer to higher authority both for access and jurisdiction.

In the Soviet context, state control of mass media is absolute, and the manipulation of public opinion (such that it exists in the Western sense) is normal and deemed a desirable function for party agitprop institutions. The significance of this aspect of Soviet political behavior for possible U.S. leverage attempts lies in the observation that the success of such attempts may be more probable if they are conducted outside the scope of public scrutiny. While the official Soviet press makes full play of treaties and the "historic" agreements concluded in detente, and exploits Western problems for propaganda purposes, it becomes quiet on issues whose resolution directly and seriously affect Soviet interests. Thus, the leaders of the USSR may prove to be more tractable over the potentially embarrassing terms of a leverage initiative, should these terms be kept secret.

As noted earlier, some advantage is offered to those applying leverage by the fact that the Politburo and relevant departments of the CC CPSU Secretariat together comprise a relatively small group of men. Political power and decisionmaking authority over the leverage issue is concentrated. The knowledge and expertise required to assess the implications for the USSR of a given U.S. leverage attempt, however, is necessarily more diffuse, as the issue and its potential effects would ramify throughout the system. In order for leverage to be successfully exercised, and influence over Soviet behavior derived, this small stratum of authoritative decisionmakers would have to be convinced of the utility to the USSR of accepting the terms advanced by the United States in its leverage initiative.

For this to occur, at least two major criteria must be met. First the subject of the initiative, the leaders of the USSR, must perceive themselves to be economically vulnerable. That is using all the information they receive from technical advisors and elsewhere, they must perceive the presence of a real need which can only be satisfied from a single external source—the nation or group of nations attempting to apply the leverage. Second, Soviet leaders must perceive this need to be of sufficient importance, such that they will decide to make concessions in order to satisfy it. It is this second criterion, depending as it does on the subjective realm of perception and the cognitive (knowing) and affective (feelings) orientations of individual Soviet decisionmakers, which introduces the greatest element of uncertainty to efforts to anticipate the success of any given leverage initiative. The design of leverage programs must involve a careful consideration of Soviet political culture as well as the images, values, and theories about the external world maintained in the minds of Soviet decisionmakers.

In addition to potential advantages, the centralized and hierarchical nature of the Soviet political system also poses certain obstacles to external attempts at influence, and thus disadvantages in regard to a prospective U.S. leverage program. As alluded to previously, the small group of authoritative decisionmakers share a world view and set of dominant goal values for the USSR which are generally hostile to the interests of the United States. The men of the Politburo and CC CPSU Secretariat are political figures, the majority of which have led long careers as CPSU functionaries. They are not, as a group, "technocrats," if this term may be taken to imply along with special expertise and concern for efficiency and relationization, the diminished interest in the symbols or substance of Marxist-Leninist ideology. The majority of these individuals consolidated their careers under Stalin, and rose in the party-state hierarchy during that period of Soviet history unparalleled for its ruthless disregard for human values. This observation, and indeed the record of Soviet allocation decisions in the development of economy, suggest that the Politburo's sense of what constitutes Soviet economic vulnerability and acceptable sacrifice may differ greatly from Western conceptions.

Another disadvantage of the centralized Soviet political system for U.S. leverage attempts is that the small decisionmaking group effectively limits exposure to the leverage initiative. It would thus be extremely difficult to broaden Soviet contact with the leverage issue, such that other Soviet elites with a somewhat varied pattern of goals and values (i.e. technical and managerial elites bearing direct responsibility for economic development) might play more than supporting roles in the final decisional response to the leverage initiative. Indeed, due to Soviet political culture, and the structure and function of the CPSU, the regime is extremely resistant to external attempts to identify and exploit differing policy goals and orientations among elite groupings.

It is, however, unwise to dismiss from consideration the role that secondary elites with specialized competence might play in the Soviet decisional process concerning a U.S. leverage initiative. Though these technical and managerial elites (represented in State ministries, state committees, and the Academy of Sciences USSR) may lack significant political power, by virtue of their expertise they may nevertheless be able to influence the political decision on a given leverage initiative. This potential influence lies in the key role such groups can be expected to play in the assessment process. They will evaluate the leverage issue's significance for those affairs under their jurisdiction, acting upon the request of the leadership. Some degree of parochialism and institutional focus is to be expected under such circumstances; for example, the State Committee on Science and Technology may stress the costs of denying the Soviet economy a given, and from their perspective, eminently desirable, technology. Depending on the issue in question, the Ministry of Defense might make a case for or against the importation of technology and the political/military "price tag" associated with it. It could be hypothesized that the KGB may argue that the particular Soviet economic vulnerability could be reduced by the use of espionage.

An important point to remember, however, is that the Politburo decision is not totally reliant on the possibly conflicting assessments generated by these various institutions. The specialized departments of the CPSU

Central Committee Secretariat function to directly support Politburo decisionmaking, and their perspective is likely to be notable for its political content, reflective of CPSU concerns. Furthermore, the potential influence of ministry-level assessments will be further reduced by the aforementioned compartmentalization of relevant information about the nature of the leverage initiative—such ministries will be tasked to respond on narrowly defined subjects. The central party organs, primarily the Politburo, are the locus of the assessment process, and it is at this level where the data-synthesis and decision will be effected.

These observations are intended to point out several characteristics of the Soviet political administration which should be considered in the endeavor to evaluate the problems and prospects for U.S. economic leverage on the USSR. The propositions advanced here suggest that the success of leverage attempts on the USSR will depend primarily on the Soviet decisionmaking elite's perception of its economic vulnerability, and their perception that the cost of foregoing the terms of the leverage initiative is unacceptable.

#### IV THE U.S. INSTITUTIONAL FRAMEWORK OF LEVERAGE AND EXISTING LEVERAGE INSTRUMENTS

##### A. The Private Sector

Although private enterprises of the United States typically trade with private enterprises of other nations, such is not the case for those businesses that desire to trade with the Soviet Union. In place of a relatively free international market system, the Soviets nationalized almost all of their foreign trade in early 1918. This nationalization was originally instituted by Lenin in order to protect the weak Soviet economy from what he felt was an economic threat from "aggressive capitalistic nations." This monopoly of foreign trade still exists today, and it is within this framework that Western private enterprises must work.

International trade with the Soviet Union is handled by the Ministry of Foreign Trade through its network of Foreign Trade Organizations (FTO's). Each FTO (there are approximately 50) deals with a specific commodity group, and is responsible for trade with all nations. Because of this state monopolization of foreign trade, the usual trade controls and trade barriers are either not present or of relatively minor impact when compared to market economies. The FTU's are guided by "control figures" produced by the State Planning Commission (GOSPLAN) and are implemented by the Foreign Trade Ministry. Therefore, they tend to protect the internal Soviet economic market from what are termed the hazards of free market economies through their policy of buying and selling in the international market at existing external prices, and purchasing from and selling to Soviet enterprises at existing internal prices. Hard currency allocation is likewise handled by the state. The Foreign Trade Bank is in charge of all such matters, whether credit is being extended to the Soviets or by them. Because the FTO's are considered juridical beings in international law, they are subject to arbitration.

The conduct of trade by private U.S. firms with the USSR is affected by the Soviet Union's pursuit of bilateral balancing between itself and each of the nations with which it trades. Soviet economic relations with other countries are for the most part based on bilateral trade agreements which specify the goods each nation intends to purchase, and the general terms on which commerce will take place. Bilateral trade agreements between the Soviet Union and developed capitalist nations, rather than focussing on a detailed listing of areas and amounts of expected transactions over the relevant period, deal with business facilitation arrangements and may also refer to the concomitant intention of the Western partner to extend government-backed credits.<sup>1</sup> The 1972 U.S.-USSR Trade Agreement provided for the following:<sup>2</sup>

- most favored nation treatment for the USSR;
- government facilitation of exchange of goods and cooperation between economic units;
- market disruption protection;
- payments to be settled in dollars or other mutually acceptable convertible currency;
- mutual consent to the establishment of government commercial offices in the capital of the trading partner;
- opening of representations by FTO's in the U.S. and by U.S. firms in the USSR;
- rights to arbitration; and
- right of each government to protect its security interests.

A separate agreement dealing with government credits was signed at the same time.<sup>3</sup>

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<sup>1</sup> The U.S.-USSR Trade Agreement, signed on October 18, 1972, was abrogated by the USSR in January 1975 on the grounds that the U.S. Trade Reform Act of 1974 established the non-compliance of the U.S. with the Agreement.

<sup>2</sup> In the case of CMEA member countries, these agreements have been quite detailed and in the past have served as some measure of plan coordination.

<sup>3</sup> See Robert Starr, ed., Business Transactions with the USSR, American Bar Association, 1975, pp. 349-375.

Trading with the Soviet Union is not like trading with free-market economies. The Soviet representative in individual trade concerns is part of the Soviet governmental structure and stands between the ultimate producer or user of the goods in question. The FTO is not motivated by competition of any kind and is typically the sole seller or buyer for the Soviets in a given area of commerce. U.S. firms are, therefore, dealing with a monopsonist, and are further encumbered by the fact that what is considered by many in the West to be normal business information is often a tightly held secret in the USSR. Additional evidence of state interference with foreign trade is shown by the possible necessity of a U.S. firm's acceptance of a compensatory agreement if the priority of the purchase of specific goods is not high enough to pressure the FTO into the acceptance of standard commercial credit terms.<sup>1</sup> Such practices force both parties to take part in lengthy and costly negotiations -- another block to trade development. Finally, U.S. firms must not only deal with the state-owned FTO's and compete with other Western firms for Soviet trade, they must also work within a system of U.S. legislation which treats the Soviet Union differently from other nations (see Appendix C).

#### B. Public and Private Sector Relations

##### 1. Public and Private Sector Interaction

To increase the probability of success of U.S. foreign policy initiatives aimed at the Soviets, the U.S. government has created institutions composed of public and/or private sector personnel. Such action has also served to permit the purely commercial advantages to trade to accrue to U.S. firms. As noted earlier in this chapter, trading with the Soviet Union differs significantly from trading with market economies. As such, specific U.S.-originated trade barriers are to be found, but the government did not desire that these barriers hamper the development of detente between the USSR and the U.S.

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<sup>1</sup> Under a compensatory agreement, a foreign firm selling to the USSR is obligated to accept physical goods as payment for their sales.

The interaction between the public and private sectors is the responsibility, within the government, of the Department of Commerce (Bureau of East-West Trade, Domestic and International Business Administration) and, in case of agricultural commodities, the Foreign Agricultural Service of the Department of Agriculture. Lending institutions are regulated by the Treasury Department, the Federal Reserve Board, and, in relations with the USSR, the Justice Department would enforce the Johnson Debt Default Act of 1934. If the Eximbank was authorized to extend export financing for the USSR, the commitment, per the 1972 agreement, would be sought by the Soviet Foreign Trade Bank, but the terms would reflect the competitive position of U.S. exporters in the Soviet market.

The private sector, in turn, is organized to make its needs known to the government. Lobbies, such as the National Association of Manufacturers, and others, have brought their objections to the Trade Reform Act of 1974 before both the White House and the Congress. In some instances, real cooperation, rather than mere interchange has been achieved by the public and private sectors. The Defense Science Board Task Force on Export of U.S. Technology, for example, was chaired by Fred Bucy of Texas Instruments and included a number of prominent executives from corporations specializing in high technologies -- airframes, jet aircraft engines, instrumentation, and solid state devices.<sup>1</sup> These corporations tend to share the goals of the Department of Defense in export control, and they have established a long working relationship with government policy planners. The private sector is also represented on the Joint Commissions which direct the government-to-government science and technology exchanges. The private sector, of course, must depend to a greater extent than in other foreign transactions on the efforts of government officials to facilitate and promote trade with the USSR. On the other hand, the private sector must also turn to the government for protection from unfair Soviet trade practices, market disruption, etc. especially as Soviet exports of manufactures grow.

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<sup>1</sup> Defense Science Board Task Force on Export of U.S. Technology, An Analysis of Export Control of U.S. Technology -- A DOD Perspective, Office of the Director of Defense Research and Engineering, Washington, D.C., 4 February 1976.

In addition, with U.S. government encouragement, the U.S.-USSR Trade and Economic Council was formed. This group consists of U.S. firms and Soviet institutions interested in trade with the U.S. The Trade and Economic Council not only serves to broaden U.S.-Soviet business contacts, but also provides a forum for consideration of the problems faced by U.S. firms in trading with the Soviet Union.

## 2. Existing Instruments of Leverage

U.S. trade-related legislation initiated since the conclusion of World War II (see Appendix C) plus the unique aspects of trading with a centrally planned economy (see part B of this chapter), give rise to a number of leverage instruments that may be implemented by the West in general, or by the United States in particular. Such instruments typically fall into one or more of the following categories:

- 1) trade barriers;
- 2) credit policy;
- 3) export control features;
- 4) business facilitation and trade promotion;
- 5) government-to-government activities; and
- 6) relations with the U.S. public sector.

While the value of these instruments cannot be imputed simply from their cataloguing (how effectively they can be orchestrated and what results can be expected are left to later sections), the discussion can usefully proceed from the following consideration of available economic instruments:

### a. Trade Barriers

#### (1) Most Favored Nation Status

The lack of MFN treatment for Soviet exports to the U.S. subjects them to the Smoot-Hawley Tariff. This tariff is most significant for items with a high degree of fabrication and thus, given the

large role of raw materials in the current composition of U.S. imports from the USSR, has little impact. The political importance of MFN status as legal recognition of normalized relations with the USSR would seem to outweigh the near-term economic importance. The longer-term impact may be somewhat greater given Soviet desires to increase the share of manufactured goods in exports to the developed West.

(2) Quantitative Restrictions

These include quantitative restrictions (quotas) and tariff-rate restrictions (imports above the quota are subject to much higher tariffs). Quotas may be allocated by country or operate on a first-come basis. Allocation by country is usually determined by shares in U.S. imports in some base period. Tariff-rate quotas are not usually allocated by country. Some U.S. quotas are established in accordance with international commodity agreements and discriminate in favor of countries which are party to the agreement. These restrictions are aimed at protection of domestic industries, and again, given the current composition of U.S. imports from the USSR, their impact in the near future is not likely to be great.

(3) Other Non-Tariff Barriers

These include government standards such as FDA regulations, airworthiness requirements, etc. As the Soviet Union attempts to expand exports of manufactures to the U.S. some of these regulations, while not readily negotiable, may need to be reinterpreted to facilitate marketing Soviet goods in the U.S.

(4) Antidumping Duties

If the U.S. International Trade Commission determines that goods are being dumped on the U.S. market or that goods priced at less than fair value are disrupting U.S. markets, special duties may be applied to these goods. In the case of the USSR, determination of fair value must be

arbitrary since domestic prices and production costs bear no simple relationship to Soviet export prices and world market prices. The test of market disruption with regard to the USSR under Section 406 of the Trade Reform Act of 1974 is only demonstration of cause of injury or threat of injury to a domestic industry. Furthermore, the President may in an emergency action impose special duties until a finding is made by the International Trade Commission.<sup>1</sup>

b. Credit Policy

(1) Eximbank

Failure to meet the Freedom of Emigration clause in the Trade Reform Act of 1974 prohibits the extension of credits or guarantees to the USSR via any program of the U.S. government. Should this clause be waived, amendments to the Eximbank Act of 1945, when it was extended in early 1975, limit new Eximbank loans to the USSR to a maximum of \$300,000,000 over the next four years, unless the President determines, subject to Congressional approval, that additional loans are in the national interest. Furthermore, Eximbank loans for production, processing, and distribution of fossil fuel energy sources is prohibited; for research and exploration a limit of \$40,000,000 is established. Individual Eximbank transactions with the USSR of \$50,000,000 or more must be reported to the Congress as being in the national interest.

(2) Other Credit Regulations

The Johnson Debt Default Act of 1934 has been interpreted by the Attorney General to prohibit general purpose loans (i.e., not tied to U.S. export transactions) to the USSR by private lending

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<sup>1</sup> Section 406, Public Law 93-618, 93rd Congress, H.R. 10710, January 3, 1975.

institutions. In addition, since the Soviet Foreign Trade Bank is normally the sole obligor for foreign loans, the 10 percent limitation affecting most institutions on indebtedness of an individual borrower is in effect (it is doubtful that private institutions would exceed or even approach 10 percent if given the opportunity).

c. Export Control

(1) In the Interest of National Security

A commodity control list requires approval of a validated license (i.e., case by case) by the Office of Export Administration for export of "strategic" goods to the USSR (among other Group Y countries). While efforts have been made to reduce this list to essential restrictions in order not to place U.S. exporters at a disadvantage, export restrictions vital to U.S. security interests are not likely to be negotiable in the foreseeable future.

(2) Consequent to Short Domestic Supply

Quantitative restrictions on exports, likely to deplete supplies of scarce commodities and result in serious inflation, may be imposed by the Secretary of Commerce, and in the case of agricultural products, upon the request of the Secretary of Agriculture.

(3) To Further U.S. Foreign Policy

This category is the most flexible set of export controls designed to achieve political aims. It includes, for example, general prohibition of exports to Rhodesia except for humanitarian purposes.

d. Business Facilitation and Trade Promotion

(1) Trade Missions, Exhibitions and Sales Seminars

These are assembled in the U.S. to promote U.S.-USSR trade and sent to the USSR to acquaint responsible economic officials with the latest developments in U.S. industrial, agricultural, communications and transport technology and equipment.

(2) Trade and Commercial Facilities

This category includes the establishment of U.S. and Soviet commercial offices in Washington and Moscow to provide services and cooperate in expanding business ties; also the permission to open representations of FTOs and special purchasing agencies (such as for the KamAz Truck Complex).

(3) Pressure on U.S. Business

While the Soviet Union has held out the promise of profitable business ties to the U.S. private sector to motivate lobbying for liberalized policies in trade with the USSR, U.S. government pressure on the business community to restrict business with Soviet Union has not been applied outside the legal framework established in the Cold War Era. Such pressure may, indeed, be an effective instrument in fine tuning trade with the Soviets.

e. Government-to-Government Activities

(1) Trade Delegations

Trade delegations, received and sent abroad to explore, at an official level, possibilities for expanding and facilitating trade, provide the U.S. government with the opportunity to guide the interface between the U.S. private sector and the Soviet state trading apparatus.

(2) Bilateral Exchanges

U.S.-USSR Working Groups have been established to undertake cooperative research exchanges in fields of science and technology, environmental protection, and space exploration. Aside from the Apollo-Soyuz mission in 1975, the results of these exchanges have been very limited. A host of problems and reservations exist in these exchanges, and in a GAO progress report the lack of sufficient commitment and resources on both sides was cited.<sup>1</sup> Some effort was made in selecting the fields of cooperation to ensure mutual benefit for the U.S. and USSR of these undertakings, but further evaluation of the exchanges may find some elements of vital interest to the USSR in these activities.

(3) Joint Commission Activities

The Joint U.S.-USSR Commercial Commission was established in May 1972 to accomplish normalization of economic relations. The Commission serves to monitor developments in U.S.-USSR trade, provide a dialogue on matters of concern, and a forum for preliminary negotiation of further agreements on trade-related matters. The sixth meeting of the Commission, originally scheduled for Washington in 1976, has not taken place and there is an indication that this was a signal of displeasure on the part of the Ford Administration to the Soviets concerning their political and military involvement in the Third World.

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<sup>1</sup> Comptroller General of the U.S., A Progress Report on United States-Soviet Union Cooperative Programs, U.S. General Accounting Office, 8 January 1975.

### C. Interagency Relations

At the present time, overall U.S. policy in regard to economic relations with the Soviet Union, its coordination and implementation is the responsibility, as in the case of all policy for economic affairs, of the President's Economic Policy Board. The chairman of this board is the Secretary of the Treasury, who also heads the East-West Foreign Trade Board. The members of the latter board are the Assistant to the President for Economic Affairs, the Secretaries of State, Commerce, Defense, Labor and Agriculture, the Special Representative for Trade Negotiations, the Director of the Office of Management and the Budget, the Executive Director of the Council on International Economic Policy, and the President of the Eximbank. The East-West Foreign Trade Board monitors levels of economic activity, exports of technology, and government extension of credits and guarantees to the Eastern bloc countries. Ad hoc groups are formed to work on particular questions under the Working Group (experts representing the agencies on the East-West Foreign Trade Board), under a single department, or under the National Security Council or Council on International Economic Policy.

The day-to-day direction of policy implementation and monitoring in U.S.-USSR trade in non-agricultural goods is the responsibility of the Bureau of East-West Trade of the Department of Commerce. The Office of Export Administration enforces export controls and passes on applications for validated export licenses. Trade missions and exhibitions are arranged by the Bureau and coordinated with the Department of State. These same functions for agricultural trade are the responsibility of the Foreign Agricultural Service of the Department of Agriculture.

The prohibitions and limitations imposed by Congress on government export-financing agencies vis-a-vis the Soviet Union have already been described. Should these prohibitions be lifted and operating within the limitations, the Eximbank and Commodity Credit Corporation (which finances exports of agricultural commodities) are guided in decisions on loans and

guarantees by the National Advisory Council on International Monetary and Financial Policies (NAC). The NAC includes the Special Assistant to the President for Economic Affairs and representatives of the State, Treasury and Commerce Departments, the Federal Reserve, and Eximbank. The East-West Foreign Trade Board is also concerned with aspects of financing at somewhat higher levels of the represented agencies.<sup>1</sup>

The complexity of policy planning, implementation, and monitoring responsibilities within the U.S. government with regard to U.S.-USSR trade and East-West economic relations in general is exemplified best by the network of departmental and interagency responsibilities involved in the formulation and application of export controls. Figure 1 shows the agencies and interagency groups responsible for both the consideration and review of export control decisions in licensing of U.S. exports and the granting of exceptions from and formulation of commodity lists for COCOM (see below) and the day-to-day staff level implementation of export controls and COCOM and compliance monitoring. In the review process, the decisionmaking does not reach the next higher level unless agreement at the lower level is impossible. As Figure 1 indicates, in the day-to-day implementation of export controls, the Department of Commerce's Office of Export Administration, which regularly deals with detailed technological concerns, must rely on the Department of State's Office of East-West Trade, concerned more for the foreign policy impact of export control, to check on compliance abroad.<sup>2</sup>

Technology exchange is accomplished not only through contracts which fall under export licensing, but also is involved in government-to-government

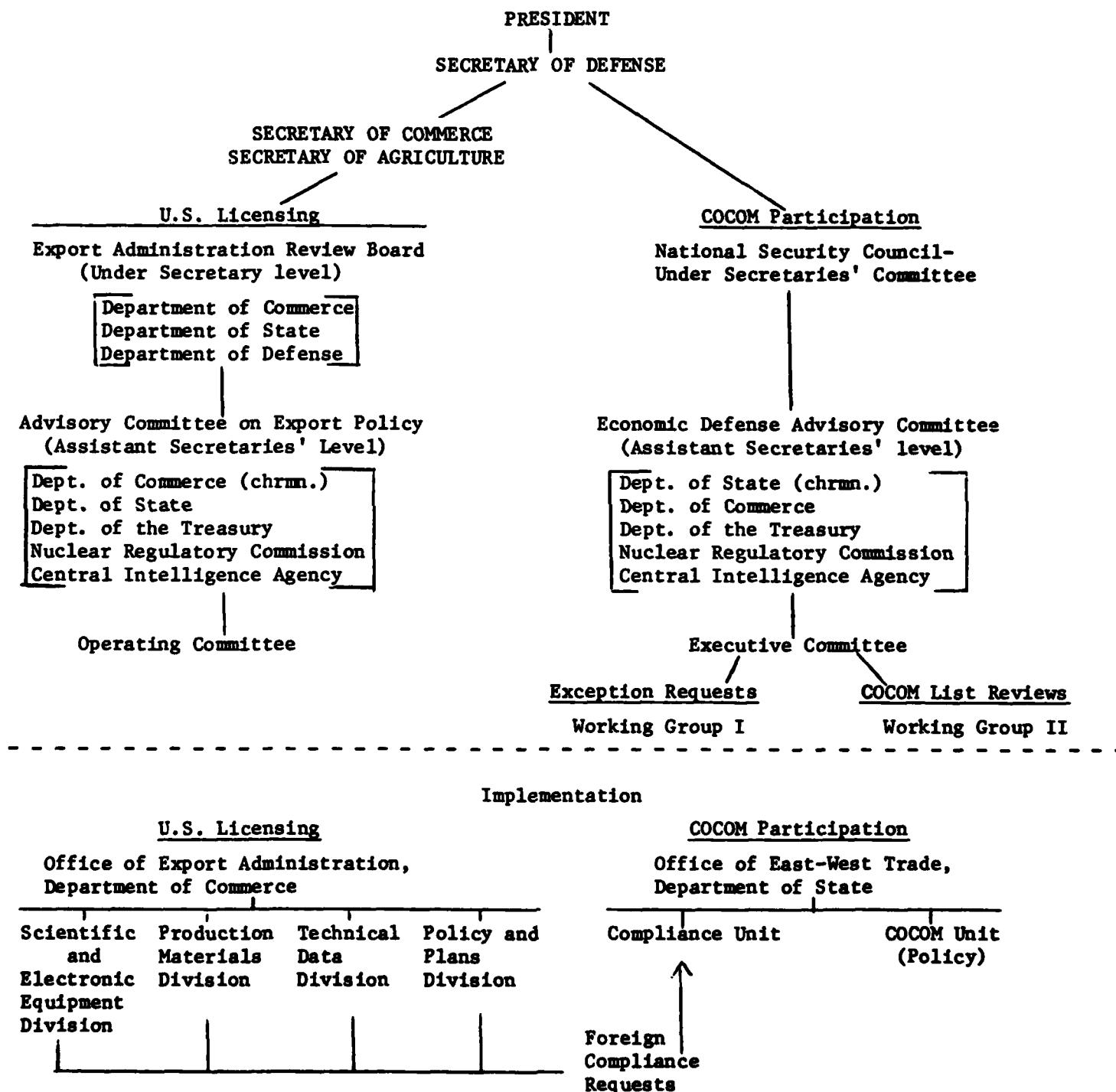
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<sup>1</sup> The foregoing description, while not including the evaluation of effectiveness of the policy formulation and implementation apparatus presented, is drawn from the Report of the Comptroller General of the U.S., The Government's Role in East-West Trade, Problems and Issues, Government Accounting Office, 4 February 1976, pp. 2-25.

<sup>2</sup> This description as well as the basis for Figure 1 is drawn from the GAO report on The Government's Role in East-West Trade, and the Secretary of Commerce, Export Administration Report, USGPO, Fourth Quarter, 1974.

Figure 1

EXPORT CONTROL REVIEW PROCESSES



and private sector-to-government agreements with the USSR. The government-to-government exchanges are coordinated by the Department of State's Office of Soviet and East European Scientific and Technological Programs. The exchanges are guided by U.S.-Soviet Joint Commissions, the Executive Secretary of the U.S. side of each commission is with the Department of State. The Office of Export Administration does not reconsider the decisions of the joint commissions in deference to their technological expertise and acknowledged concern for U.S. national security. The encouragement of private sector cooperation with Soviet institutions is stipulated by the government-to-government agreements. Assuming that the private sector cooperation agreements, which do not involve payment, would not provide for actual technology exchange without contractual arrangements, these agreements, which usually are little more than official recognition of intention to cooperate, are not subjected to review and approval by the U.S. government. Any contractual agreement resulting, however, would require licensing for export of technical data.

All of these agencies report not only to their own superiors and interagency policy and coordination groups, but also report to the U.S. Congress and respond to requests for information from banking committees, foreign affairs committees and science and technology committees in the House and Senate.

#### D. Intergovernmental Coordination

Since the U.S. supplies only 15 percent of OECD sales to the USSR,<sup>1</sup> it is clear that a leverage policy implemented with the full cooperation of the OECD nations would have a much greater probability of success than a similar policy pursued by the U.S. alone. In the latter situation, the OECD nations would represent viable alternative sources for the machinery and investment desired by the Soviet Union, and would thus seriously reduce the U.S. leverage potential.

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<sup>1</sup> See Appendix D.

Several attempts have been made to unite OECD and NATO members behind a coordinated East-West trade policy. The International Export Control Coordinating Committee (COCOM) has the function of coordinating export-control policies for the NATO nations and Japan. U.S. influence in COCOM, however, has fallen commensurate with the postwar rise of NATO countries and Japan as independent political and economic powers, and COCOM, in its present state, is widely felt to be an ineffective forum for leverage implementation. Indeed, U.S. Embassy officials in NATO nations have expressed little confidence in the willingness of other COCOM nations to cooperate in multilateral security controls, in light of the existing and growing pattern of bilateral trade between the COCOM nations and the Soviet Union. Detente policies have resulted in such agreements and have thereby contributed to a reduction in the multilateral consensus on export controls.

Because a large portion of Soviet imports comes from Western European nations, the U.S. and Japan, NATO and OECD are logical arenas for multilateral coordination of economic leverage. Other organizations, about which similar statements could be made, do not lend themselves well to that task. For example, GATT members, IMF members and the International Bank for Reconstruction and Development members likewise make up a large share of Soviet imports, but such organizations are designed to increase trade and improve economic development in the world economy. To achieve this goal, they have necessarily included within their ranks nations with varied economic backgrounds including some Socialist nations. Thus GATT, IMF and IBRD are not the proper fora for the propagation of a coordinated policy of economic leverage applied to the Soviets.

The implementation of policymaking committees within COCOM might produce concrete leverage results. Since all of the member nations compete in extending credit to the Soviet Union, committees dealing with credit, as well as others dealing with technological trade and export licensing, might be established. Such a practice could lead to an across-the-board policy on credit extension that may be fine-tuned (in part) to match U.S. interests. Although the private sector has traditionally balked at the use of levers directed against it, individual governments could, for example, relax various antitrust regulations or banking statutes in return for cooperation from private companies.

#### **E. A Successful Leverage Policy**

In examining the legal and institutional framework within which economic instruments of leverage operate, it can be seen that under present conditions the role of several of the instruments is severely circumscribed by current legislation, i.e., MFN status has considerable political importance for the USSR and its economic significance would increase if there was an expansion of Soviet exports of manufactured goods. Since credit is clearly of importance to the Soviet Union, its control by the U.S. government could prove to be a flexible instrument of leverage.

The attempt of the amendments to the Trade Reform Act of 1974 and Eximbank authorization to make MFN status and credit extension conditional on Soviet behavior failed. Among the reasons for this failure were the Act's stringent and complex requirements for the monitoring of compliance, the low ceiling on credits (in the event of credit extension approval), and above all the overt nature of the leverage application. The debate in the U.S. and the resulting rejection of the terms by the USSR highlighted two institutional limitations on the U.S. government's ability to carry out a leverage program:

- (1) the pressure for open discussion in the U.S.; and
- (2) the need in the U.S. political arena, for demonstrable short-run gains.

As detailed in earlier sections of this chapter, viable economic instruments of leverage do exist. Coordination, communication and a clear enunciation of national goals within appropriate channels are the necessary requirements for molding these instruments into an effective program. An orchestrated strategy, devised in the public sector, must come from a streamlined policymaking process coordinated within the government by those with clear views of national objectives, and not from purely a process of compromise to satisfy the divergent aims and missions of the various concerned government agencies.

While certain private sector interests already represent, to some degree, pressure for laissez-faire policies with regard to economic relations with the USSR, the private sector's stake in these relations will grow as trade expands. And, since U.S. foreign trade is ultimately conducted by private firms for private profits, the impact on the private firms of a leverage program aimed at the promotion of national interests must be considered a vital factor in the orchestrating of economic leverage.

## V CONCLUSIONS

### A. Objectives

One of the major problems in discussions of economic leverage is that the full range of objectives, which could be pursued by the United States through the application of leverage, is not sufficiently recognized and defined. There exists a multiplicity of possible objectives. These objectives vary with regard to their scope (general or specific), their period of effect (long-term or short-term), and their benefit (great or limited). It is important to consider each of these different dimensions, but special emphasis should be given to the last one. As stated in the introduction to this report, the argument is often made that if U.S. policy objectives of the highest importance cannot be achieved through a leverage program, then the program is not worth instituting. Such an argument ignores the essential cost-benefit nature of all decisions. If the cost of a given option is high, then its benefit must be high to make that option attractive. But if the cost is low, then the benefit could be low, and that option could also be attractive. A well-balanced policy portfolio should contain a program and initiatives aimed at a wide range of different objectives, including those that vary in regard to their level of benefit.

The general objective of a U.S. leverage program would be to shape Soviet behavior, to involve the Soviet Union in a process which affects its behavior in both external and internal aspects, in a manner desired by the U.S. Within this general framework, a wide range of specific objectives can be identified. In Table 8 , below, an illustrative taxonomy of possible U.S. objectives of an economic leverage program is presented along with examples of each. The list of objectives and the examples are intended to be illustrative only; they should not be regarded as exhaustive.

The specific objectives and examples listed in Table 8 vary as to their long-term or short-term nature. In some cases, this type of classification is fairly simple and straight forward; in others it is not. For example, the objective of liberalizing internal Soviet political behavior is clearly long-term. This objective will not be accomplished overnight merely through the increase in economic contacts between U.S. businessmen and Soviet economic officials, or through the spread of U.S. management methods in the Soviet Union. In the long-run, however, such developments might contribute to a diffusion of economic decisionmaking authority in the Soviet Union. On the other hand, items like specific procedural concessions in arms negotiations and increased rights of U.S. journalists in the USSR are likely to be attained in the short-term. The effects of these short-term objectives, however, may extend over a long period. In fact, most of the short-term objectives may have long-term effects in that they may establish precedents or create new situations which will affect Soviet behavior in the future.

The objectives and examples of Table 8 also vary in regard to their level of benefit to the United States. While it would be difficult to find agreement regarding the exact ranking of all the illustrative objectives in Table 8, such items as substantive Soviet concessions in arms negotiations, concerning, for example, the numbers and qualitative aspects of a specific weapon system, or the reduction of Soviet subversive activities abroad, would be considered by many to be of high benefit to the U.S. Items perceived to be of more limited value to the U.S. might include procedural concessions in the arms negotiation process, enhancing the potential for bilateral agreement on maritime issues, and extending the rights granted foreign journalists in the USSR *apropos* of the Helsinki Accords.

#### B. Key Guidelines

The material presented in the foregoing chapters is used to derive a set of Key Guidelines which this report recommends be used in the development of a U.S. economic leverage program.

TABLE 8 TAXONOMY OF POSSIBLE U.S. OBJECTIVES  
IN AN ECONOMIC LEVERAGE PROGRAM

U. S. OBJECTIVES	EXAMPLES
1. <u>Arms Negotiations</u>	<u>SALT, Test Ban, MBFR, Non-Proliferation</u>
Specific concession in arms negotiation	Backfire
Specific procedural concession in verification terms	Inspection
Specific procedural concession in negotiation process	Information, scope of discussion
Enhance general progress in arms negotiation	Extent of concessions and agreements
Enhance continuity of negotiations	Raise threshold of what would terminate negotiations; change willingness to continue bargaining
2. <u>Crisis Situations</u>	<u>U.S./USSR and/or Third Party Relations</u>
Raise threshold for initiation of an international crisis	Oil embargoes; clashes over fishing, drilling rights; Portugal
Raise threshold for use of military force in a crisis (Soviet; third power)	Restrain Egypt and Syria in October 1973; Portugal
Constrain scope of military operations (Soviet; third power)	Limit Soviet military aid, advisers; degree of penetration by client

U.S. OBJECTIVES

EXAMPLES

Crisis situations (Concluded)

Contribute to early termination of hostilities  
Condition favorably terms of settlement of hostilities

U.S./USSR and/or Third Party Relations

Press clients for quick termination; constrain military aid  
Press clients to accept terms agreeable to us

3. Miscellaneous Restraints on Soviet External Behavior

Decrease subversive activities abroad  
Moderate near-term foreign policy objectives  
Modify instruments used to achieve foreign policy objectives  
Decrease the momentum of Soviet military buildup

Change procurement and deployment of strategic nuclear forces

Change deployment of theater forces

Attain greater economic and political access to Eastern Europe for U.S.

Penetration of European labor unions

Portugal; wars of national liberation; Angola  
Encourage Soviet Union to move to a less coercive approach in foreign implementation

Indirect effect--outside of direct arms limitation negotiations

Forego ICBMs of high accuracy

Number of divisions, tanks, MBFR, etc.

Terms and scope of trade--Rumania, etc.

4. Internal Soviet Policies and Behavior

Liberalize internal political behavior  
Achieve specific domestic political concessions

Diffusion of decisionmaking  
Emigration; rights of U.S. journalists in Soviet Union

*1. Political military factors prevail over economic considerations in U.S.-USSR relations.*

This derives from the observation that there is a special relationship stemming from the super power status of the U.S. and the USSR. That relationship is characterized by conflict or competition between the two socio-economic systems. The result of this is that economic relations between the U.S. and the USSR are not viewed in the same way as normal bilateral economic relations between nation states. That is, the advantages of economic relations are not assessed in each country purely in economic terms, but primarily in political terms. Furthermore, this primacy of political considerations is true in general of Soviet decision-making; it is a product of Soviet political culture and related to the centralization of decision-making in the USSR. Thus the first guideline basic to the consideration of a U.S. program to use economic leverage to affect Soviet behavior refers to the role of political-military factors in U.S.-USSR relations.

An illustration of the part played by political-military factors is useful at this stage of the analysis. One example would be that while the Soviet need for expanded economic relations with the West is great, Soviet leaders would not pursue these relations if they saw in them political dangers, such as significant dependence on Western economies. Another example would be that if the Soviet economy were to be hit by an economic crisis that threatened vital political objectives of Soviet leaders, their willingness to pay the price for expanded external economic relations would be greatly increased.

*2. Soviet national interests which are of high priority are not negotiable in the economic arena.*

It is difficult to conceive of situations where the returns from economic relations with the U.S. would be perceived as being great enough to lead Soviet officials to negotiate matters which are considered of vital

national interest. The consequence of this is that the U.S. should not have excessive expectations in regard to the potential return from economic leverage, especially with regard to matters directly affecting the national security of the USSR or the legitimacy and authority of the CPSU.

3. *Multilateral coordination within the U.S. and among the advanced nations is a vital consideration in the exercise of leverage.*

The objectives and policies of different agencies within the U.S. government, and of the public and private sectors within the U.S. need to be coordinated in order to operate an effective leverage program.

Furthermore, multilateral coordination among the U.S. and its allies regarding policy toward economic relations with the USSR is of major importance. This has occurred in the past, only in regard to export control where the realization came early after WWII that policy coordination in regard to military related efforts was imperative. But since the early 1970's, pressure for trade liberalization has come from U.S. allies as their economic independence and prospects for trade with the USSR have grown. And since in many areas the USSR can substitute relations with other advanced nations for relations with the U.S., it is vital for the U.S. to pursue coordination of policies with the other advanced nations in order to make leverage effective.

4. *Certain asymmetries between the Soviet and American systems have a significant effect on leverage.*

One important asymmetry pertains to the trade itself between the U.S. and the USSR, its composition and means of payment. The economic benefit of the trade to the USSR is substantially greater than to the U.S., lending support to the frequently heard argument that the U.S. is entitled to some political benefits to balance the exchange. Furthermore, since the USSR currently imports more from us than it exports to us, it has been in the market seeking credits to finance this trade. The flow of credit represents a potential source of leverage; but also, according to some analysts, the

debt created gives to the Soviet debtor a possible source of counter-leverage over the U.S. creditor.

Another of these asymmetries relates to the differences in institutions engaged in the conduct of foreign trade, essentially the differences between the operation of a state trading monopoly, and of private producers, exporters and importers. These two sets of institutions operate in different ways, with different objectives and behavioral characteristics; these systemic differences lower in many ways the potential leverage of economic relations in achieving U.S. political/military objectives.

A third significant asymmetry concerns the number and strengths of different interests which are involved in the making of economic and political decisions. In the U.S. there is a multiplicity of such interests, which create problems. The often conflicting interests of such groups as labor and farmers are manifested in the political arena and have to be resolved. The price effects of the increase or decrease of economic relations with the USSR on U.S. producers and consumers also enter the picture, adding to the difficulty of managing a leverage program.

In the USSR there is not a multiplicity of important groups whose divergent interests have to be taken into account and incorporated in national policy-making. The authoritarian, hierarchical, and centralized-nature of the Soviet political system precludes the interplay of plural and contending centers of power common in U.S. politics. Decisionmaking authority over a priority issue such as U.S. economic leverage would inevitably reside in the Politburo and CPSU Central Committee, which together comprise the apex of the Soviet administrative hierarchy. To the extent these "central organs" of the party aggregate the differentiated interests common to all advanced and highly-industrialized societies (and one can assert with confidence that contention exists among the collective leadership depending on the issue at hand), some role must be granted subnational groupings with attitudinally or institutionally-defined interests in the policy process. It is misleading to view these subnational groupings or

"interest groups" in the western context, for their share of political power in no way matches that of similar groups in the United States.

Nevertheless, CPSU policy must to some degree aggregate and articulate the varied interests which do exist in the Soviet context, whether this is achieved through the representation of these groupings in the central organs, or the mechanism of cooptation of elites. With respect to economic relations with the U.S. and the issue of leverage, these subnational groupings and their potential (albeit limited) effect on Soviet policy is worth considering. The importance of middle and lower-level Soviet party and state officials regarding a Soviet policy response to a U.S. leverage initiative is heightened by the Soviet administrative practices of specific agent responsibility, continuous monitoring of agent performance, and the awarding of material and status rewards and penalties in relation to performance, lead to the pursuit by responsible agents of the means of meeting their assigned tasks. To the extent that imports from the U.S. of machinery and technology help in this regard, interests may be formed within Soviet administrative groups, especially at the ministerial level, in support of maintaining expanded economic relations with the U.S. This is a significant aspect of the Soviet system which contributes to the potential for the exercise of economic leverage by the U.S.

As was argued in Chapter II, the fact that major policy decisions in the Soviet Union are made by the small group of Party leaders in the Politburo itself offers some advantages to the exercise of leverage by the U.S. Since the Politburo is responsible for all major policy decisions, they have the power to deliver on agreements with the U.S., including unpublicized agreements (see below). Moreover, since the Soviet economic bureaucracy resists change and innovation; the Soviet political leaders, if they are to maintain national power parity with the U.S., must exert pressure from above to introduce and spread new methods and new technology. Thus their commitment to the import of advanced foreign technology is great. Furthermore, operating as they do in the political sector, these pressures take the form of high priorities and campaigns

usually focused on a few major projects which receive substantial public attention and become identified with senior Party officials. Soviet leaders would, as a consequence, be somewhat more vulnerable to a U.S. leverage effort directed toward such major projects. (This also would argue in favor of the U.S. government supporting and encouraging U.S. involvement in such projects so as to create the base for the exercise of leverage).

5. *The exercise of leverage is a continuing process.*

In the development of a leverage program, the desired objectives should not be viewed from a static perspective. The strategy developed must fundamentally recognize that the utility of economic relations in achieving political objectives is intertwined with the dynamic process of the interaction between the U.S. and the USSR.

6. *As the network of U.S.-USSR economic interrelationships expands, the potential for leverage will increase.*

Leverage may precede or follow the expansion of economic relations. That is, a strategy may be employed that calls for certain political concessions from the USSR before we permit the expansion of economic relations. To some extent such a strategy was pursued by the U.S. in the early 1970's. But the argument being made here is that the opportunities for leverage and the potential for leverage expand with economic relations. This is so because there are more points upon which pressure can be applied. Further, since Soviet economic administrators find change difficult, the more they get involved in the routine of expanding economic relations with the U.S., the more vulnerable they will be to threats of its interruption.

It should be noted, however, that with the expansion of economic relations the risks of economic constraints resulting from leverage and of counter-leverage policies also increase for the U.S. This results from

the increase of the number of private firms establishing business relations with the USSR. It will be to the interest of these businesses to maintain these relations. Thus, they will resist governmental maneuvers, within a leverage program, to reduce or control the rates of expansion of the level of their relations, and they may become susceptible to Soviet efforts at counter-leverage, i.e., support particular U.S. policies favored by the USSR in order to maintain profitable business relations.

The issue also has other complexities, as is illustrated by the following. Among the U.S.-USSR economic relations which have been under discussion is the investment by the U.S. in the expansion of the amount of Soviet produced oil products received by the U.S. Some have raised the concern that even if such imports were only a minor part of our total oil supplies, this limited U.S. dependence would give the USSR potential leverage over us. But the issue may become even more complex. For example, during the period of Soviet obligatory deliveries, the Arab nations might declare an embargo on oil deliveries to the U.S. and they would certainly request Soviet participation in the embargo. The USSR, involved in a network of relations with the U.S., would then stand to lose substantial economic benefits if these relations were severely curtailed by the U.S. because of Soviet failure to meet its oil export obligations. Because of this, Soviet political policy might be constrained by its desire to maintain beneficial U.S.-USSR economic relations.

7. *The openness of the U.S. political process leads to pressure for measurable and immediate U.S. benefits from expanded U.S.-USSR economic relations.*

Because a U.S. government policy of expanded relations with the Soviets has to be justified in the U.S. political arena, pressure builds up for measurable and immediate U.S. benefits resulting from these relations. Furthermore, many groups, (especially those who are, for various ideological, political, cultural, and other reasons) which are strongly hostile to the Soviet Union, look upon economic relations with the USSR as a zero-sum game. That is, if the Soviets benefit, the U.S. must be losing.

All of this makes it very difficult for the U.S. to pursue a long-run strategy wherein U.S.-USSR economic relations are expanded with most of the immediate, short-run gains going to the USSR, but with the expectation that significant gains will accrue to the U.S. in the long-run.

8. *The capability of being fine-tuned is a major desirable characteristic of a leverage instrument.*

In order for an instrument of leverage to be effective it should be possible to vary its application, to increase or decrease its score quickly and easily. This is true, for example, of credit, especially if the credit is being provided by a U.S. government agency (such as the Eximbank). On the other hand, it is not true of MFN.

In addition, leverage instruments should be capable of being responsive to the interests of different groups within the U.S. For example, if grain exports are to be used in a leverage program, the government must have the means of maintaining U.S. farm income if it intends to reduce such exports. The argument can be made that the withholding of grain exports to the Soviet Union for political reasons, in a situation where there is starvation in the Soviet Union, would not be morally acceptable to most Americans.

9. *The application of leverage instruments should be attuned to Soviet concerns and sensitivities.*

If the application of leverage is to be effective, it must take into account certain salient Soviet sensitivities. For example, Soviet leaders are concerned with issues of political legitimacy. As a result, they are particularly sensitive to any threats to the sovereignty of the CPSU. Thus the tactic of quiet, diplomatic application of leverage is preferable to a declaratory, overt application of leverage. Furthermore, in the everyday conduct of Soviet political administration secrecy abounds; access to information is severely restricted and compartmentalized. Soviet leaders are accustomed to secrecy and are uncomfortable with openness.

Soviet leaders, since Lenin's resolution "On Unity in the Party", have remained sensitive to any divisions which might arise among contending elements of the CPSU. They have taken steps to cloak disagreement behind the veil of monolithic party unity according to the principle of "democratic centralism". While it would appear tempting to play upon cleavages among the Soviet elite, such efforts, even if feasible, would be met with determined resistance.

10. *Threats are better than action.*

It is a better tactic to threaten the reduction of economic relations than to actually reduce the relations. The actual reduction, in addition to having U.S. domestic repercussions, will force the USSR to adjust to the imposed reduction, thereby decreasing future leverage potential. Also the reduction of economic relations to achieve a short-term objective could conflict with the pursuit of a long-term objective which may require the increase of economic relations. This does not mean, however, that the tactic of reducing the level of economic relations should never be used in a leverage program. For in order to make a threat creditable, action must at times be employed. What it means is that the use of action must be carefully calculated and above all that it not appear to be capricious to the Soviets.

11. *Although the strategy should be formulated from a dynamic perspective, the conduct of leverage strategy is in large part tactical.*

The requirement on the part of the Soviets for measurement of costs and benefits of particular courses of action is greater than for the U.S. This is a result of systemic differences -- the cost to a decisionmaker of being wrong is perceived to be greater in the USSR than in the U.S. and the multiplicity of interest groups in the U.S. often blurs the precise calculation of benefits or costs. Thus, the conduct of a leverage strategy should place much greater reliance on a series of small but interrelated initiatives than on periodic, larger scale ones.

C. Preliminary Assessment of Leverage Potential

In light of the guidelines for the development of a leverage program set forth above, the nature and extent of economic pressures on Soviet leaders, and the political principles which relate to the degree to which the Soviet Union can be externally influenced, what can be said, in a preliminary way, assessing the potential for U.S. leverage in pursuing the objectives set forth in Table 8?

It is our assessment that there is a low potential for leverage to achieve specific concessions in arms negotiations. There may be some leverage potential associated with maintaining the pace of negotiations on obtaining procedural concessions in the negotiation process. Perhaps one of the areas in which economic relations have a high political utility is in raising the threshold for avoiding the initiation of direct international crises between the two superpowers.

The potential of economic relations in achieving political-military objectives would be enhanced in situations such as the following:

- multiple agricultural failures
- an increasing deterioration of general economic performance which threatens Soviet political objectives
- a hard currency debt position which would in the short run potentially force a drastic reduction in imported machinery from the West
- a build-up of internal pressures for consumer goods
- the development among Western nations of an effective multilateral economic negotiating position for policy on East-West trade
- the increase in Soviet interrelatedness with the world economy.

Further situations could be listed but the pattern is conveyed here. Basically there are two types of situations in which our ability to influence Soviet behavior would significantly increase.

First, if the need for Western goods and technology were to be radically increased as a result of short-term failures of the Soviet economy, the potential leverage from economic relations would be enhanced. Second, if the interrelatedness of the Soviet economy and the world economy were gradually increased over a 10-20 year period, the impact of actual or threatened decreases in economic relations, with respect to many of the specific objectives listed in the taxonomy, would also increase.

Finally, if the U.S. is to increase the leverage potential from economic relations with the Soviet Union, it is clearly necessary to improve coordination mechanisms within the U.S. and among the countries of the developed West. The U.S. should, moreover, enhance its trading relationships with nations of the developed West in order to reduce the incentives for these nations to substantially increase their trade with the East.

#### D. Further Research

This report has been directed toward the identification of the elements, the analytical structure, for an assessment of the economic leverage possessed by the U.S. The authors hope they have made some contribution toward moving this analysis forward. But, obviously, much still needs to be done.

One of the areas which needs more work is the Soviet decisionmaking process. A close, in-depth analysis, of a particular hypothesized situation might well produce valuable results. A possible scenario to investigate could be the following:

An agreement exists in principle on a 10% force reduction in NATO/PACT forces (MBFR). The United States seeks in addition to limit or impose ceiling on mobile SSM (tactical missiles) in connection with the agreement. Soviets not forthcoming on this proposal.

Coincident with MBFR talks, the USSR has sought the extension of long-term credits to support purchases of equipment and technology for expansion of the KAMA truck manufacturing plant. These credits are desired at less than commercial rates, and require participation by the U.S. government.

At MBFR negotiations, U.S. representatives meet in closed session with Soviet counterparts and mount leverage initiative. They propose that Soviet acceptance of SSM ceiling in MBFR negotiations would be linked with U.S. government participation in the extension of credits for the KAMAZ project. Soviet representatives request a week's time to consider the U.S. proposal before further negotiations take place.

The research problem would then be to identify the decision-making chain. Who would be consulted by the Politburo? What positions might they take? What information, data might they submit? What levers might the United States press to get a desirable resolution?

Answers to questions such as these would aid in transforming the framework for analysis attempted here into a more realistic evaluation of the possibility for success of a United States leverage program.

**APPENDIX A**

APPENDIX A  
THE SOVIET PARTY AND STATE APPARATUS, AND THE MANAGING OF THE ECONOMY

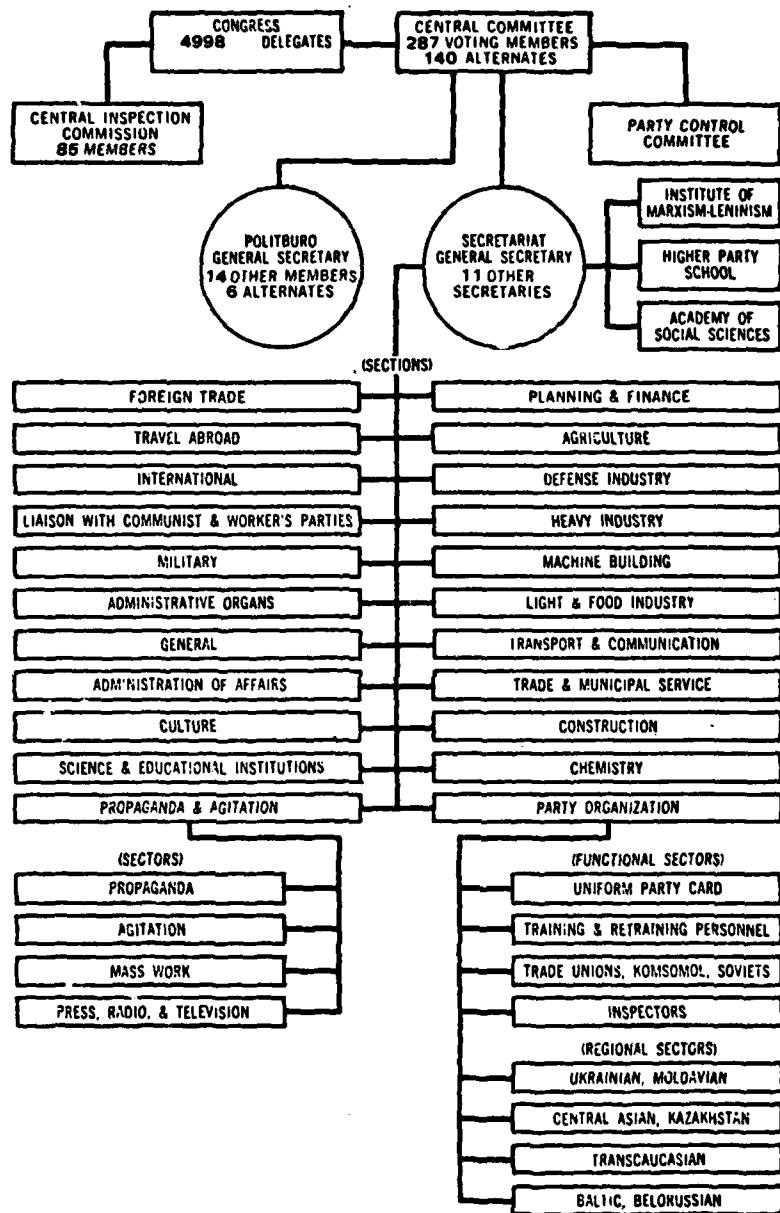
A. Structure and Function of the CPSU

The hierarchical structure of the Communist Party of the Soviet Union can be usefully described in terms of four levels. At the top of the hierarchy are the "central organs," the CPSU Politburo, Central Committee, and CC CPSU Secretariat. The second level comprises the Republic, Krai, and Oblast CPSU administrations. The third level includes the district and city party organizations, the raikom and gorkom, and the fourth, and broadest layer is made up of primary party organizations in the individual enterprises and collective farms. Each level in this structure will be briefly described according to their powers and functions in Soviet administration.

The "central organs" of the CPSU are the center of decision-making and policy formulation in the Soviet Union. Although the Party Statutes describe the Party Congress as the "supreme organ" of the CPSU, the locus of power is the Politburo of the Central Committee. This body determines national policy on all questions: Political, social, economic, scientific, military. It is composed of the highest-ranking individuals holding posts in the Party and government. The Politburo (formerly Presidium) is in effect, an executive committee of the larger Central Committee (288 voting members, 140 candidate members which meets in plenary session every six months). The executive and administrative apparatus of the Central Committee is, respectively, the Politburo and Secretariat. It is within this apparatus that policy is decided and implemented, and the affairs of the Party and government structure carefully monitored and directed in conformance with Party policy. The Secretariat issues instructions to the middle and lower levels of the CPSU, which in turn act as transmission belts to parallel levels of

Figure A-1

CENTRAL ORGANIZATION OF THE SOVIET COMMUNIST PARTY



Source: John A. Armstrong, Ideology, Politics, and Government in the Soviet Union,  
Praeger Publishers, New York, 1974.

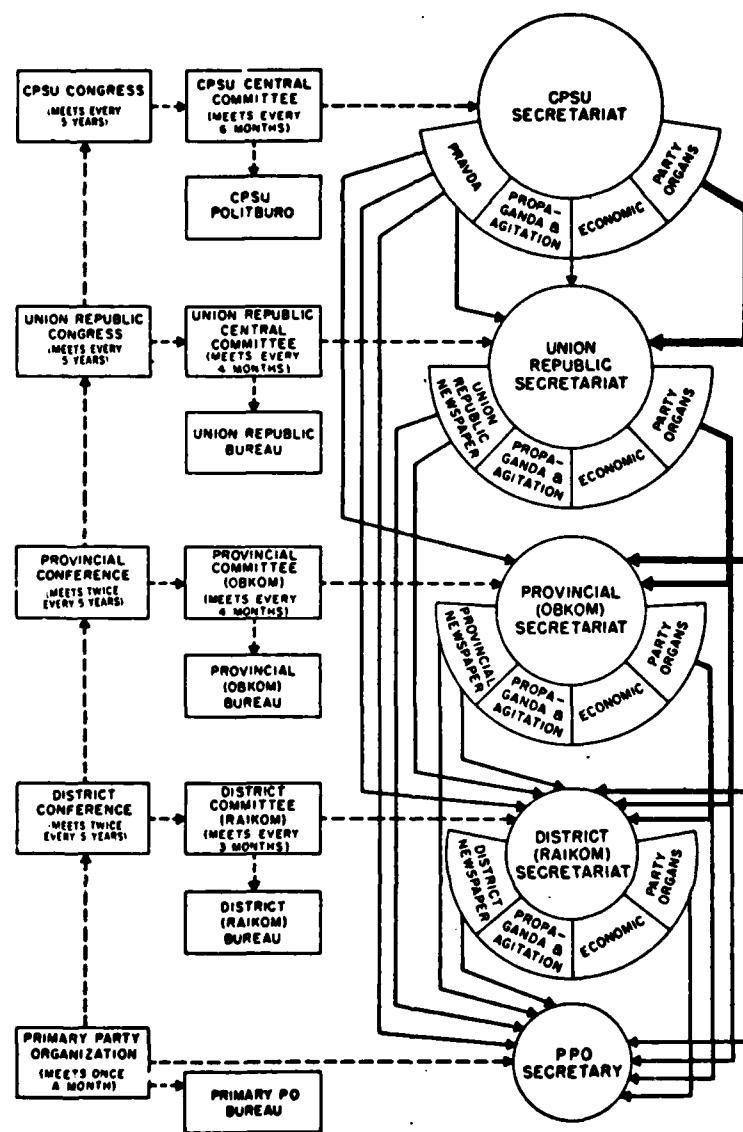
government organization. It is the center and functioning "heart" of the Party bureaucracy, and duplicated at the Union Republic, provincial (Oblast and Krai), and district (Raion) levels. The Secretariat is organized into otdels or departments on a functional basis (see figure A-1) which are staffed by Party apparatchiks. These departments monitor and report according to their specialized areas, studying and raising issues of concern to the Party Secretaries for action. The head of the CPSU apparatus is General Secretary Leonid Brezhnev, primus inter pares in the collective leadership of the Politburo.

The functioning of the Party structure stems from the principle of "democratic centralism." This prescribes, according to the Rules of the CPSU, "strict party discipline and the subordination of the minority to the majority," as well as the "obligatory" nature of "decisions of higher bodies" on lower bodies. Thus discussion and disagreement is permissible within the ranks of the party prior to a decision. Subsequent to the setting of policy by the central organs, absolute adherence to that policy is mandatory by all members and authority is hierachically determined. The CPSU is in this way extremely centralized with the central organs exercising control throughout the apparatus (see figure A-2).

At the Republic level, the entire CPSU structure is replicated with a Union Republic Bureau, Central Committee, Secretariat, and Republic Congress. Responding to the directives from above, these organs coordinate and implement Party policy within the Republic, direct and oversee the Republic government administration of the economy, and monitor and control the provincial, district and local Party apparatus. The provincial organs of Party administration comprise one of the most important levels of CPSU decisionmaking, for they are directly responsible for industrial and agricultural production in their respective

Figure A-2

VERTICAL ORGANIZATION AND SUPERVISORY FUNCTIONS IN THE CPSU



Source: John A. Armstrong, *Ideology, Politics, and Government in the Soviet Union*, Praeger Publishers, New York, 1974.

areas.<sup>1</sup> The preeminent Party organization here is the Oblast Party Committee (Obkom) and its Secretariat.<sup>2</sup> The key figure is the First Secretary of the Oblast whose authority extends to all political, economic, social and cultural activities occurring within its jurisdiction. The administration of the Oblast is effected by the Oblast Secretariat, composed of a permanent staff and five secretaries. It is the instrument of the Obkom First Secretary, and like the more complex national and republic secretariats, the Oblast Secretariat is organized into otdels in a functional manner. (See figure A-3) The Secretariat is the link between the Obkom and lower party committees (raikoms and gorkoms), as well as to industrial enterprises, trade union organizations, Komsomol groups, government Soviets, etc., within the Oblast. The decisions of the Obkom are transmitted through the specialized departments of the Secretariat to the organizations listed above. The Secretariat's primary function is that of control, and its subordinate role to the Obkom entails careful monitoring (pravo kontrolya) through the collection and analysis of statistics and reports from primary Party organizations within industrial enterprises, collective farms, and other organizations.<sup>3</sup> The otdels of the Secretariat have specific functional responsibilities. For example, as depicted in Figure A-3, the Industrial-Transport and Construction otdels evaluate plan fulfillment among such organizations in the Oblast, as do the Agriculture and Sovkhoz Otdels with respect to agriculture. The Administrative and Trade-Financial Otdel places the work of the government administrative organs, trusts, and the trade network under critical scrutiny.

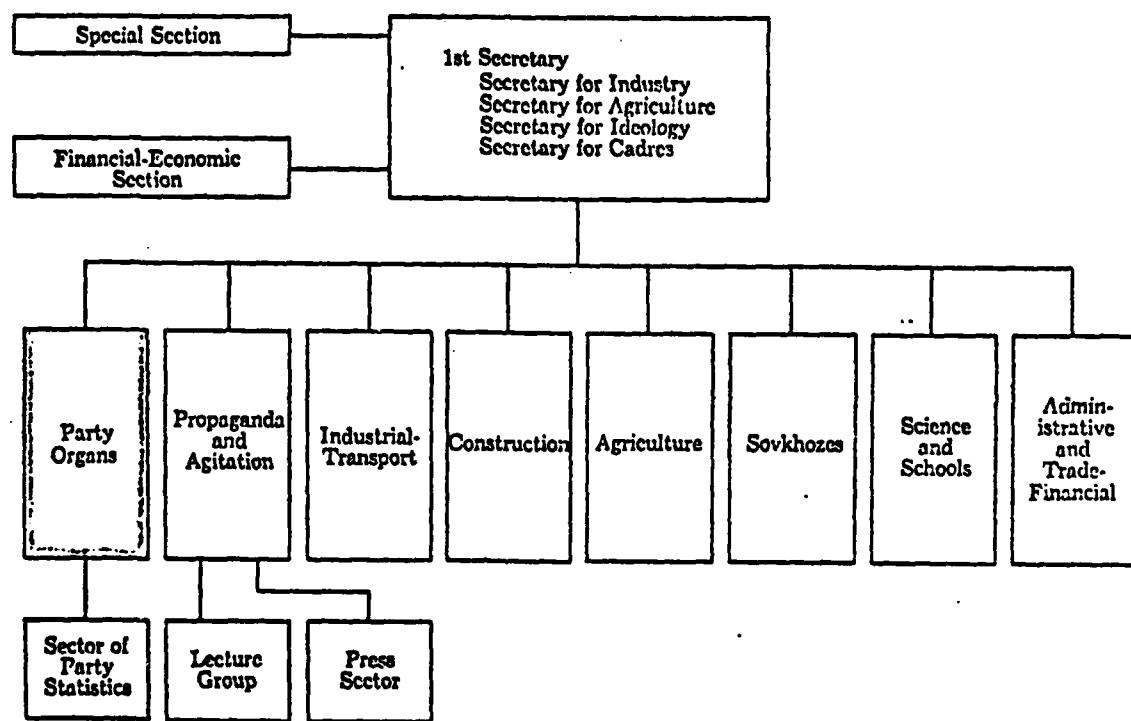
<sup>1</sup> See Pravda, 15 February 1956. Nikita Khrushchev declared at the 20th Party Congress that "the work of a Party Official should be judged primarily by those results attained in the development of the economy for which he is responsible."

<sup>2</sup> This discussion of the structure and functions of the Oblast Party Organization is drawn from Philip D. Stewart, Political Power in the Soviet Union (New York: Bobbs-Merrill Co.), 1968. Stewart provides a comprehensive analysis of provincial and local party organs. See Chapter 8, pp. 178-184 for a detailed treatment of the Oblast Secretariat.

<sup>3</sup> Ibid., pp. 178-179.

**Figure A-3**

**OBLAST PARTY SECRETARIAT<sup>1</sup>**



<sup>1</sup> Stewart loc. cit.

Each otdel is headed by a chief with assistants and staffed by "instructors" who collect information and draw up reports which comprise the basis of Obkom Bureau decisions. The otdel chief is particularly important for he is responsible for determining what data and issues are presented to the Secretaries, and thus the nature and form of questions raised to the Obkom Bureau for decision. The key position of the otdel chief is further illustrated by the fact that appointment or removal of these Obkom officials is subject to the approval of the Central Committee of the CPSU.<sup>1</sup>

In the Oblast and local Party organizations, the CPSU has a role in the administration of the economy. In general, the Party is said to provide rukovodstvo (leadership) and napravlenie (direction to the state apparatus and economic institutions).<sup>2</sup> In this capacity, however, the Party Secretary of an Obkom seeks to insure that the work in his Oblast proceeds in conformity with the broad policy directives set by the CPSU Central Committee. He must interpret and translate policy directives set by the CPSU Central Committee. He must interpret and translate policy emanating from the "central organs" and apply it in more specific fashion in his Oblast. Party "leadership" or "direction" in this regard does not entail intervention in the day-to-day, practical decisionmaking of the manager or head of an individual enterprise. For these "technical" decisions the principle of yedinonachaliye (one-man rule), vested in the head of the enterprise, still applies.

The other role exercised by the Party, alluded to above, is that of control and the constant monitoring (pravo kontrolya) of state and economic institutions as to their fulfillment of plan goals. An important

<sup>1</sup> Ibid., p. 184.

<sup>2</sup> See Jerry Hough, "The Soviet Concept of the Relationship Between the Lower Party Organs and the State Administration," Slavic Review, Vol. XXIV, No. 2 (June 1965).

part is played by the local and primary party organizations in this function. At this lowest and broadest strata of Party administration including raikoms (regional committees), gorkoms (city committees) and primary Party Committees within individual enterprises, the professional Party politicians work together with government officials and managers in the Party committee. Each enterprise has its own Party organization, with a Secretary, the director of the concern, shop foremen, trade union functionaries, and workers represented. At this level, a certain sharing of responsibility between the Party and the manager occurs. The Party secretary takes a greater role in management, assisting the director of the enterprise in meeting his production targets, and solving with the aid of higher Party organs, those special problems which might require a policy decision. A question arises with respect to the extent to which the local Party organization can exercise its "control" function when it is drawn into the decision-making of the enterprise and shares responsibility with the manager. The role of the Party at this basic level of administration may vary considerably according to the nature of the institution in question and the personalities of the individuals involved.

## **B. The Government Administration of the USSR**

In the Soviet Union economic decisions are made within the administrative hierarchy rather than within markets. These decisions reflect the priorities which the leadership has established and the administrative apparatus is responsible for assuring they are achieved. As stated above, the Politburo of the Communist party establishes the goals of society in basic policies which include the setting of economic priorities. The policies are implemented in the highest organs of the state administration by individuals who hold both the highest state and party positions.

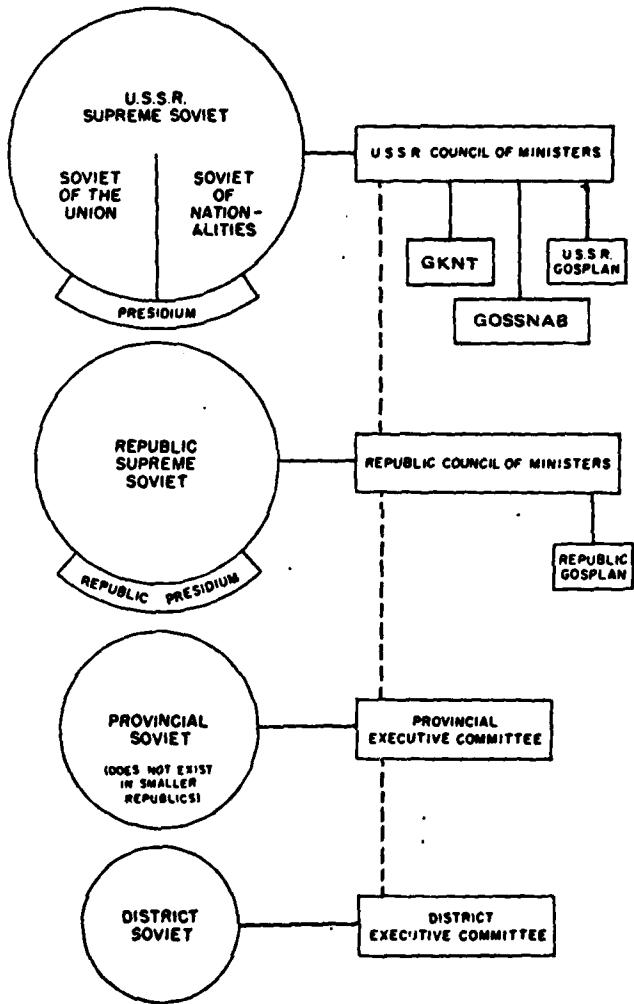
According to the Soviet Constitution, the leading organization of the state is the Supreme Soviet; the deputies of one house are "elected" directly by voting of the population; the other house consists of representatives of the nationalities. Since the Supreme Soviet meets infrequently, it appoints members to the Presidium which carries on the functions of the Supreme Soviet between sessions. The Supreme Soviet "elects" the Council of Ministers and its Presidium, which includes the heads of GOSPLAN and other important State Committees, who are the administrators of the government. Each of the union republics, of which there are fifteen, has a state apparatus that parallels the national apparatus (see Figure A-4). Beneath the Union republican government are oblasts which are the provincial government structures. Below the oblasts are the district and local administrations.

### **1. Managing the Economy**

During most of the plan period in the Soviet Union, the economy has been organized in an economic branch ministerial system. In this system, each enterprise belonging to a branch of the economy is subordinated to the ministry having jurisdiction over that branch. There are three types of ministries:

Figure A-4

FORMAL STRUCTURE OF THE SOVIET GOVERNMENT



Source: John A. Armstrong, *Ideology, Politics, and Government in the Soviet Union*, Praeger Publishers, New York, 1974.

- a) All-union ministry--This ministry supervises its enterprises directly from Moscow with no intermediate republican authorities.
- b) Union-republic ministry--These ministries have offices in Moscow and one or more of the republics. The enterprises under these ministries report through the Union-republic ministries to Moscow.
- c) Republican ministry--These ministries direct enterprises within the republic and have no direct superiors in Moscow. These ministers are members of the Council of Ministers of the USSR and the republican councils.

The agency which has been designed to coordinate the work of the ministries is Gosplan (the State Planning Committee). Gosplan is an advisory body to the Council of Ministers and has no formal administrative powers. Gosplan is the key organization in the design and implementation of economic plans. The central economic administration structure of the USSR is presented in Figure A-5.

a. Planning

A brief description of the economic planning process follows. The CPSU Politburo establishes the broad objectives for the state and society and these are incorporated into a five-year plan. But each year, an annual plan is constructed that provides the economic units with their operating instructions. The annual plan permits the state to incorporate revisions in its long-term objectives when circumstances warrant.

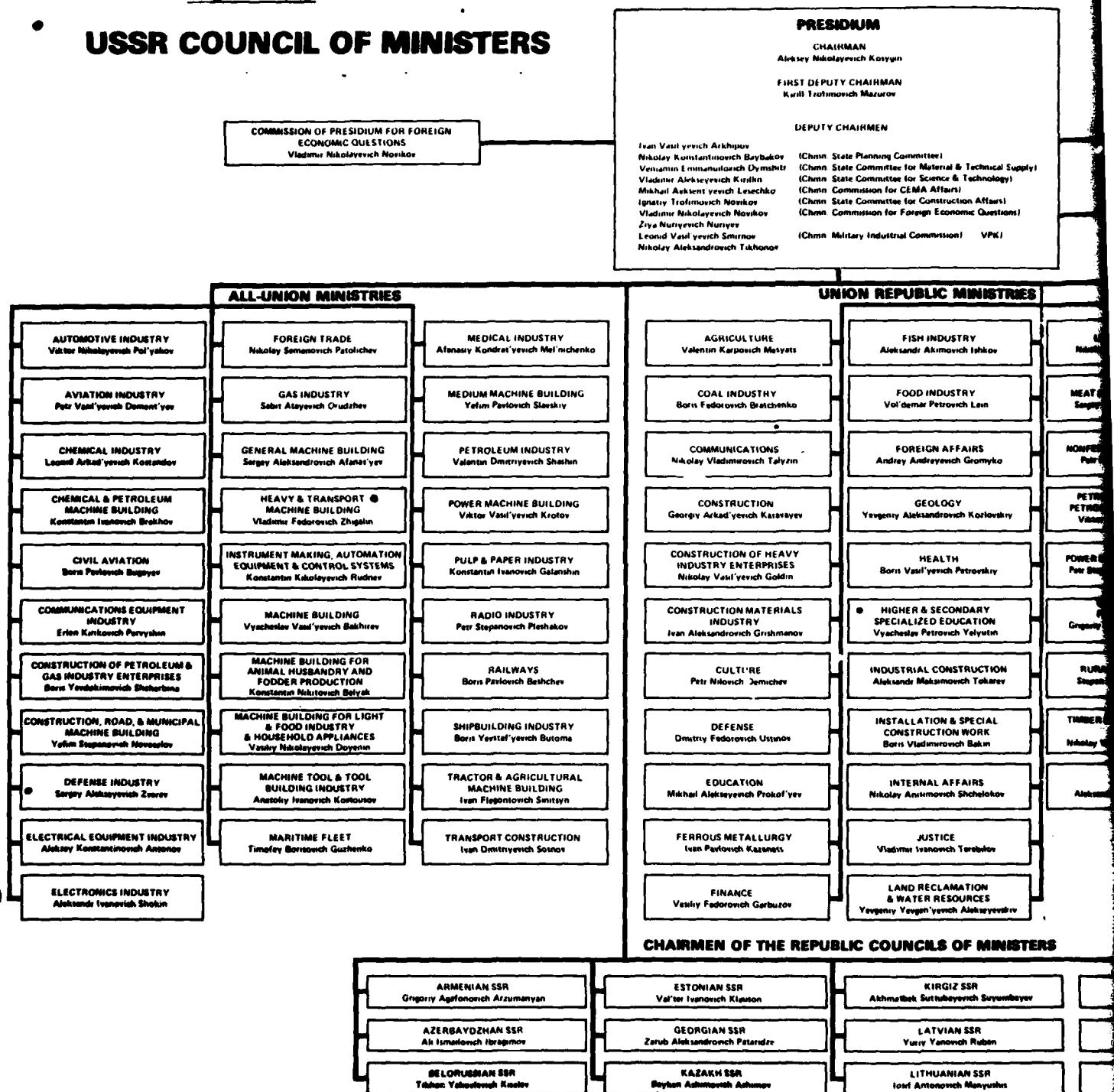
The first stage in the construction of the annual or operating plan is for Gosplan to take the broad objectives of the party and government and design a tentative plan, with control figures, to achieve these goals. Meanwhile, the ministries and firms are assessing

**USSR C**

AUTOMOTIVE INDUSTRY Viktor Nikolaevich Pol'yakov
AVIATION INDUSTRY Petr Vasil'yevich Dement'ev
CHEMICAL INDUSTRY Leopold Arkad'yevich Kosandov
CHEMICAL & PETROLEUM MACHINE BUILDING Konstantin Ivanovich Bratkov
CIVIL AVIATION Boris Pavlovich Supryev
COMMUNICATIONS EQUIPMENT INDUSTRY Erkin Krikorovich Parvylar
CONSTRUCTION OF PETROLEUM & GAS INDUSTRY ENTERPRISES Boris Yevdokimovich Shcherbinin
CONSTRUCTION, ROAD, & MUNICIPAL MACHINE BUILDING Yefim Stepanovich Novoselov
DEFENSE INDUSTRY Sergey Alekseyevich Zverev
ELECTRICAL EQUIPMENT INDUSTRY Aleksey Konstantinovich Antonov
ELECTRONICS INDUSTRY Aleksandr Ivanovich Shchukin

Figure A-5

## USSR COUNCIL OF MINISTERS



## PRESIDIUM

CHAIHMAN  
Aleksy Nekolayevich Kosygin

FIRST DEPUTY CHAIHMAN  
Kirill Trofimovich Mazurov

### DEPUTY CHAIHMAN

Vasiliy Arkhipov  
Mikail Kostantinovich Baybakov  
Semyon Emmanuilovich Dymshits  
Viktor Aleksyevich Kirilin  
Kirill Aleksyevich Lesechko  
Ivan Trofimovich Novikov  
Viktor Nikolevich Novikov  
Vasiliy Nekolayevich Nuryshev  
Vasiliy Smirnov  
Viktor Aleksandrovich Tikhonov

(Chmn: State Planning Committee)  
(Chmn: State Committee for Material & Technical Supply)  
(Chmn: State Committee for Science & Technology)  
(Chmn: Commission for CEMA Affairs)  
(Chmn: State Committee for Construction Affairs)  
(Chmn: Commission for Foreign Economic Questions)  
(Chmn: Military Industrial Commission) VPKI

### COMMISSION OF PRESIDIUM FOR CEMA AFFAIRS

Mikhail Aleksyevich Lesechko

### MILITARY INDUSTRIAL COMMISSION (VPKI)

Leontii Vasiliyevich Smirnov

## UNION REPUBLIC MINISTRIES

AGRICULTURE  
Valentin Karlovich Masyats

FISH INDUSTRY  
Aleksandr Akhromovich Ishkov

LIGHT INDUSTRY  
Nikolay Nikolayevich Tarasov

COAL INDUSTRY  
Boris Fedorovich Bratchenko

FOOD INDUSTRY  
Vol'demar Petrovich Lein

MEAT & DAIRY INDUSTRY  
Sergey Fedorovich Antonov

COMMUNICATIONS  
Nikolay Vladimirovich Talyzin

FOREIGN AFFAIRS  
Andrey Andreyevich Gromyko

NONFERROUS METALLURGY  
Petr Faddeyevich Lomako

CONSTRUCTION  
Georgy Arkadiyevich Karavayev

GEOLOGY  
Yevgeny Aleksandrovich Kozlovsy

PETROLEUM REFINING &  
PETROCHEMICAL INDUSTRY  
Viktor Stepanovich Fedorov

CONSTRUCTION OF HEAVY  
INDUSTRY ENTERPRISES  
Nikolay Vasiliyevich Goldin

HEALTH  
Boris Vasiliyevich Petrovsky

POWER & ELECTRIFICATION  
Petr Stepanovich Neporochny

CONSTRUCTION MATERIALS  
INDUSTRY  
Ivan Aleksandrovich Grishmanov

HIGHER & SECONDARY  
SPECIALIZED EDUCATION  
Vyacheslav Petrovich Yelutin

PROCUREMENT  
Grigory Sergeyevich Zolotukhin

CULTURE  
Petr Nikonor Demiches

INDUSTRIAL CONSTRUCTION  
Aleksandr Maksimovich Tokarev

RURAL CONSTRUCTION  
Stepan Dmitrievich Khitrov

DEFENSE  
Dmitry Fedorovich Ustinov

INSTALLATION & SPECIAL  
CONSTRUCTION WORK  
Boris Vladimirovich Bakin

TIMBER & WOOD PROCESSING  
INDUSTRY  
Nikolay Vladimirovich Timofeyev

EDUCATION  
Mikhail Aleksyevich Prokof'yev

INTERNAL AFFAIRS  
Nikolay Anan'evich Shchetkov

TRADE  
Aleksandr Ivanovich Struyev

FERROUS METALLURGY  
Ivan Pavlovich Kazanets

JUSTICE  
Vladimir Ivanovich Tereblov

FINANCE  
Vasiliy Fedorovich Garbutov

LAND RECLAMATION  
& WATER RESOURCES  
Yevgeny Vasiliyevich Aleksyev

## STATE COMMITTEES

PLANNING (GOSPLAN)  
Nikolay Konstantinovich Baybakov

CONSTRUCTION AFFAIRS  
(GOSSTROY)  
Ignatii Trofimovich Novikov

FOREIGN ECONOMIC RELATIONS  
Semen Andreyevich Skachkov

FORESTRY  
Georgy Ivanovich Vorob'yev

INVENTIONS & DISCOVERIES  
Yuriy Vasiliyevich Makarov

LABOR & WAGES

MATERIAL & TECHNICAL  
SUPPLY (GOSSNAB)  
Veniamin Emmanuilovich Dymshits

STANDARDS

TELEVISION AND RADIO  
BROADCASTING  
Sergey Georgievich Lapin

VOCATIONAL & TECHNICAL  
EDUCATION  
Aleksandr Aleksandrovich Bulgakov

## OTHER AGENCIES

ALL UNION ASSOCIATION  
"SOYUZEL'KHOZTEKHNIKA"  
Aleksandr Aleksandrovich Yeshchenko

BOARD OF THE STATE BANK  
(GOSBANK)  
Mefodii Naumovich Svetshnikov

CENTRAL STATISTICS  
ADMINISTRATION  
Lev Mandrikovich Volodarsky

COMMITTEE OF PEOPLE'S CONTROL  
Aleksy Mikhaylovich Shkal'nikov

COMMITTEE FOR STATE SECURITY  
(KGB)  
Yury Vladimirovich Andropov

## CHAIRMEN OF THE REPUBLIC COUNCILS OF MINISTERS

ESTONIAN SSR  
Viktor Ivanovich Klausen

KIRGIZ SSR  
Akhmetbek Sultubayevich Suyumbayev

MOLDAVIAN SSR  
Petr Andreyevich Pashov'

TURKMEN SSR  
Bella Yazykliyev

GEORGIAN SSR  
Aleksandrovich Petaradze

LATVIAN SSR  
Yuriy Yanovich Ruben

RSFSR  
Mikhail Sergeyevich Solomentsev

UKRAINIAN SSR  
Aleksandr Pavlovich Lyashko

RAZAKH SSR  
Abdul Ashrafovich Ashrafov

LITHUANIAN SSR  
Iosif Antonovich Manushis

TADZHIK SSR  
Rakhman N. Nabiyev

UZBEK SSR  
Narmukhamed Dzhurayevich Khudayberdiyev

their capabilities and needs. The control figures incorporate the output and distribution of about 200-300 aggregated product groups. The control figures are passed down through the ministerial system and the basic economic production unit, the enterprise, is informed of the level of operation necessary to attain the economic goals. During the next few months the production enterprise negotiates for alterations in the plan to accommodate specific circumstances at the enterprise level. These modifications are aggregated as the plan is transmitted back through the ministries to Gosplan.

Gosplan now has the task of assuring that the plan is consistent and feasible and will accomplish the government's objectives. The balancing of supply and demand for centrally-allocated products is attempted through a method known as "material balances." The size and complexity of the economic system guarantees that the plan is "balanced" in name only. The priority system is necessary to have flexibility in the program. In other words, the goals of priority sectors are frequently met at the expense of reduction of supplies to lower priority sectors.

Once the plan is as nearly balanced as the system and time will permit, the government approves it, and the plan is broken down once again. In this manner, the state enterprises receive their operating instructions for the year.

Economic planners and enterprise managers are the key personnel in the Soviet economy. The planners are responsible for designing the plan while the enterprise manager has the final responsibility for actual production of the planned outputs. The Soviet enterprise manager is motivated by both the "carrot and the stick." On the one hand an elaborate bonus system (both monetary and nonmonetary) for plan fulfillment or overfulfillment is operative; on the other hand, the enterprise manager's performance is constantly assessed by his administrative superiors and the party cadre. Consistent underfulfillment of plan or deviation from acceptable performance may result

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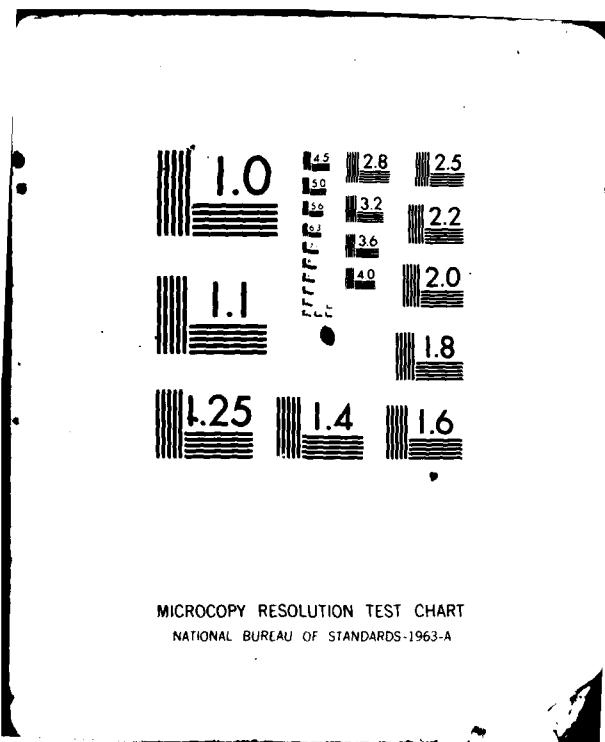
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in loss of position and thereby income and status. Because of the nature of these incentives, the manager attempts to influence planned output goals so they are achievable and influence planned supply of inputs so they are adequate to fulfill the plan. Enterprise managers may, because of performance pressures, pursue both legal and illegal means to enhance inputs and minimize outputs. The manager, furthermore, reveals strong "risk-aversion" characteristics. This has contributed in a critical way to the slowing of technical progress in the Soviet Union since innovations always involve risk and even when eventually successful, have the potential, in the short run, of lowering the rate of growth of output or perhaps even causing an absolute reduction. Technical change is generally mandated from the top down rather than initiated at the enterprise level.

Two other state committees attached to the Council of Ministers play important roles in economic planning and technological progress: The state committee on Material-Technical Supply (Gossnab) and the State Committee for Science and Technology (GKNT).

b. Administration of Foreign Trade

Planning of economic activity extends to foreign trade as well as domestic trade. The year to year conduct of foreign trade reflects state policy as to the appropriate role of foreign trade in the planned economy.

Soviet foreign trade is organized under the jurisdiction of the Ministry of Foreign Trade, Gosplan, and a number of foreign trade organizations (FTOs). The Ministry of Foreign Trade must, like other ministries, submit to Gosplan its requirements in order that they be incorporated into the national economic plan. When the Plan is approved by the Supreme Soviet, the Ministry of Finance prepares the plans for expenditures of foreign currency and the limits of the amounts of goods the Ministry of Foreign Trade can import. When the Plan and its financing have been completed, the day-to-day operations are carried out by FTOs

whose performance is controlled by the plan's objectives. These FTOs place orders with enterprises for purposes of export and, in the case of imports, place orders abroad and then insure delivery to the appropriate enterprise. The relationship between prices paid and charged domestically and world prices is somewhat obscure. Due to the fact the Ruble is not convertible and Soviet prices are no scarcity related, the Soviets have resorted to bilateral trade agreements when possible. Foreign trade is an integral part of the overall economic plan and thereby subject to the controls and close scrutiny directed at all economic units within the system.

c. Vertical and Horizontal Interaction in Economic Administration

The Soviet economic system has been described as a command system. The plan and commands flow from the top down through a vertically organized administrative system. Coordination of the economic plans and activities rest at the top among the Council of Ministers, Gosplan and Gossnab. The enterprises' performance is assessed by the higher organizations and information and data flow vertically.

Although the organization is vertical, it does not preclude some horizontal activities. Contracts between enterprises are legal for some commodities under specific circumstances. But they are not extensive and in terms of overall economic activity marginal at best. There is information to substantiate that the Soviet enterprise manager does go outside the legal limits to transact enterprise business. The shortage of supply of material inputs has forced the managers to search for supplemental sources of inputs. Even though such transactions are illegal, they result in greater economic efficiency and rarely result in punishment.

The Soviet system has established a mechanism for monitoring the performance of the various administrative units within the economy. First, since the plan states specific performance goals, each administrative unit's real outputs can be compared to the planned goals. Those performing at or above plan levels are rewarded while those performing below plan are subject to sanctions. Secondly, the State Bank monitors the financial activities of the administrative units, particularly the enterprise, to insure compliance with the plans. The third monitoring is by the party members whose organization parallels that of the government. In spite of the careful monitoring, the Soviet managers and administrators do conduct illegal activity. The incentive system places emphasis on plan fulfillment and it is frequently worth the risk to circumvent the system.

The Soviet leadership has attempted by revisions of the incentive system to resolve the conflict between the overall national interest (as reflected in the plans) and the pursuit by the agents of private interest, i.e., maximizing agent income through wages, bonuses, and special awards and recognition. To date, at least, the Soviets have not been overly successful.

The preeminent principle of Soviet political administration is the rule of the Party. Several other principles or attributes of political administration in the USSR are important and have been referenced here. These include the authoritarian nature of the state, the concept of "democratic centralism" and Party discipline, the highly centralized nature of political and economic decision-making and the hierarchical structure of the CPSU and government apparatus.

These factors result in the consolidation of political power in the hands of the Politburo and Central Committee of the CPSU, the centralization of all important decision-making authority at the top of the Party-State hierarchy, and the observance of strict discipline and agreement in the CPSU once decisions are reached (democratic centralism). As a consequence, an understanding of the perceptions of this restricted elite is important and fundamental to the task of designing initiatives based on economic leverage and other means for influencing Soviet behavior. Specifically, Soviet elite perceptions of their adversaries, the nature of the international political system, the role and relative position of the USSR therein, and the strengths and vulnerabilities of the Soviet Union must be identified. This is an important prerequisite for the analysis of leverage opportunities.

Top Soviet leaders are in a position to make judgments about costs and benefits of alternative action and to carry them out. If the cost of altering a given policy (especially an external policy or a military policy) is considered relatively minor, then the benefits of maintaining expanded economic relations with the United States may be considered sufficient to lead to the altering of the given policy. The cost-benefit analysis, however, will not be restricted to the economic aspects but rather will be related to calculations of political costs and benefits. The economic and political aspects would undoubtedly be weighted, with the decision perhaps more influenced by the political component than the economic. The Soviets will assess the U.S. actions within the Soviet framework of their strategic aims and their ideology, i.e., competition of the two systems, the avowed superiority of scientific and technical Socialism over the decadent western capitalist states, etc.

The Soviet leadership appears still to be concerned about the legitimacy of their regime and they are sensitive to new threats (real or imagined) to Soviet sovereignty. This limits the potential leverage on Soviet internal behavior, but it does not eliminate the possibility.

For economic influence to be successful two major criteria must be met before considering implementing such a strategy. First, the subject of the initiative, in this case the USSR, must be economically vulnerable. That is, a real need must be present which can only be satisfied from a single external source--the nation or group of nations attempting to apply the leverage. Second, the leaders of the USSR must perceive this need to be of sufficient importance, such that they will decide to make concessions in order to satisfy it.

To make the decision, the Politburo will have the Secretariat analyze a course of action for technical aspects and determine its feasibility and consistency within the framework of the economic plan. If the motivation for a new or extended relationship with the U.S. comes from within the system, i.e., enterprises, ministries or state committees, the request is routed through the higher party structure and then if, passing scrutiny, is presented to the CPSU Central Committee Secretariat and finally the Politburo for a decision. To the extent that expanded economic relations help managers and administrators meet their assigned task, we gain potential leverage within Soviet decisionmaking groups, especially at the ministerial level. The benefits to Soviet economic agents from expanded economic relations with the West may also lead in the longer run to greater and more permanent involvement of the Soviet economy in the world economy.

**APPENDIX B**

APPENDIX B  
SOVIET VIEW OF AND COMMITMENT TO DETENTE

Lacking the means after the Bolshevik Revolution to successfully provoke revolution in capitalist societies, Lenin forced the Party to adopt a policy of "peaceful cohabitation" with the West. The cornerstone of this policy entailed the avoidance of direct conflict with the West, while enhancing "Soviet power" and military capabilities for an ultimate, and decisive clash. Under Stalin, "peaceful cohabitation" was replaced by "peaceful coexistence," which emphasized that the "peaceful" phase of the systematic conflict would last longer than originally expected. During the 1950's, further modification of the Soviet line postulated that war between the two systems might be avoided because the overall correlation of world forces were constantly becoming more favorable to the cause of socialism. This revision was articulated by Khrushchev in this thesis that war with the capitalist world was no longer fatalistically inevitable, prompted in part by the acknowledgement that nuclear war would wreak devastation on both societies. Under the present Brezhnev regime, this policy has been defined to mean that victory over capitalism will be secured through aggressive competition encompassing all realms, excluding direct military confrontation.

The contemporary manifestation of the general Soviet strategy of peaceful coexistence is the policy of detente. Under detente, or "relaxation of tensions" to use the preferred Soviet terminology, both sides are said to be pledged to avoidance of nuclear war. Relations in all other areas are viewed in terms of conflict and competition. The discussion above elaborates the historical context within which present-day discussions of detente must be considered. Before addressing the question of the Soviet commitment to detente, it is necessary to examine how Moscow views detente, for the Soviet conception is at substantial variance with that commonly held by Americans.

The current "misunderstanding" over detente, has led an American president to drop the word from his public statements and adopt the Soviet terminology.

"relaxation of tensions." Detente, like its forebearer, peaceful coexistence, evoked different notions in Washington and in the Kremlin. The Soviet press candidly explained peaceful coexistence as an offensive policy for implementing Soviet strategy toward the West in that competition between the opposing systems would be directed to arenas other than military so as to reduce the likelihood of a mutually destructive nuclear war. So too is detente viewed by Moscow as a means to lessen the risk of general war, and on this basis little misunderstanding existed between Moscow and Washington. From the Soviet perspective, however, detente like peaceful coexistence, prescribes the unrelenting struggle against capitalism on all fronts--military, political, economic, social, ideological, and scientific-technological. In fact, under detente, Soviet leaders have called for heightening the ideological struggle, and reiterated their support for wars of national liberation and anti-Western movements. As the events of the Vietnam War, the October War in 1973, and the victory of the MPLA in Angola indicate, detente has in no way altered the Soviet commitment to victory over the West. Quite the contrary, under the conditions of detente the Soviet Union has significantly heightened its role in Third World conflict areas, tested the will and resolve of the United States, and continued apace the dramatic expansion of its conventional and strategic military capabilities.

Soviet aggressive behavior pursued under "detente," or the "relaxation of tensions," appears logical in light of the Kremlin perception that "detente" is reflective of a necessary Western accommodation of growing Soviet power and the world-wide gains of socialism. American willingness to enter into detente is described by Soviet authors as a manifestation of weakness. Some restraint must be exercised, however, in generalizing solely on the basis of Soviet open source literature, whose purposes include propagandizing both internal and external audiences. While detente may be viewed this way by the Soviet elite, it has not led the Soviet press to abandon its emphasis on the aggressive, dangerous tendencies of "imperialism," or the threat posed by American military capabilities.

Present-day Soviet analyses of international affairs consistently assert that a substantial shift has occurred in the correlation of world forces in favor of socialism. This qualitative change in the course of world events is marked at the beginning of the 1970's. The calculation of the correlation of world forces, which denotes the relative alignment of the two opposing social systems, takes into consideration a broad range of economic, military, political and international criteria. The contemporary shift is identified as having occurred in conjunction with the Soviet attainment of strategic parity. This achievement moved the main focus of competition between the two systems away from direct military confrontation and towards the socio-economic, political, political-military, and ideological arenas. Soviet authors argue that the advance of the socialist community, headed by the USSR, is hastened by the decay of the West. More specific factors viewed as important components contributing to this shift in the world correlation of forces favoring socialism, are the gains of the national liberation struggle, the American failure in Vietnam, the internal "contradictions" of "bourgeois society," and the "general crisis" that has beset Western economies. This "crisis of capitalism" is presently alleged to be at its most severe phase since the Great Depression of the 1930's. In the Soviet view it grips all aspects of capitalist life, and even should capitalism partially recover from its present situation, the general trend would remain toward disintegration.

As has been indicated above, when addressing the question of Soviet commitment to detente one must take into consideration the historical perspective and continuity from which this policy emerges. Detente or "relaxation of tensions" is not an innovation, but rather a derivation of the peaceful coexistence strategy adopted by the USSR many years ago. From the Soviet Marxist-Leninist vantage point, detente is considered to be appropriate to this stage of

history, and is supported by an "objective" assessment of the world correlation of forces. This policy, given its close continuity with the past and the confidence the Soviets appear to feel concerning the course of world events, is endowed with certain inertia. Soviet leaders perceive detente to serve their interests with respect to the need to restrain the United States from "imperialist aggression" and "arms-racing" while the USSR continues its drive for military superiority, and also with regard to the opportunities detente creates for technology transfer with the United States, Western Europe, and Japan. These benefits militate against detente being abandoned for any but the most fundamental and compelling reasons.

#### A. Soviet Negotiating Characteristics

A useful but general definition of negotiation is that process in which states put forward explicit proposals ostensibly for the purpose of reaching agreement, an exchange of views, or the realization of common interests where conflicting interests are also present. It must be interjected here that states often negotiate when not seeking agreement - they are motivated by other concerns, which include: (1) negotiating to maintain contact; (2) a substitute for war or violent action; (3) negotiating for intelligence-gathering purposes (what are the adversary's real intentions and capabilities); (4) deception; and (5) negotiation for propaganda purposes. The USSR at various times in its history, has employed negotiations for all these purposes. The USSR negotiates agreements when it seeks an advantage, or is attempting to neutralize an adversary's advantage.

When analyzing Soviet negotiating characteristics it is important to recognize a salient feature of Soviet perceptions shaping their behavior at such forums as arms control and disarmament conferences, summit meetings, and other situations in which exceedingly important issues are deliberated. The USSR holds a fundamentally different viewpoint on the purpose and utility of negotiations than that shared by other advanced Western nations. Specifically, the Soviet Union conceives of negotiations as a "zero-sum" game.<sup>1</sup> They participate in these forums to win, viewing negotiations as a total adversary situation. Unlike their Western "adversaries," the Soviets do not approach negotiations with the notion that both parties face a common problem whose resolution through bargaining will produce a mutually favorable compromise. On the contrary, Soviet negotiating posture has typically been to operate at such forums strictly from their own political viewpoint and to unrelentingly seek to optimize their gains at the expense of the

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<sup>1</sup> Paul Nitze, "Forward" in Donald G. Brennan, Arms Treaties with Moscow: Unequal Terms Unevenly Applied? Agenda Paper No. 3, National Strategy Information Center, New York, 1975, p. XV.

partner. Such behavior might appear to Westerners to be tough bargaining over subjects of intense and sensitive interest to the USSR. However, beneath Soviet negotiating behavior runs a powerful and dynamic political perspective based on their assessment of the "correlation of world forces." In general terms, this calculus prescribes that the direction and pace of world change favors the Soviet Union, and that detente and Western negotiation reflects the weakness of capitalism and its grudging acceptance of the realistic necessary to accommodate the USSR and world socialism.

Mr. Paul Nitze, former Secretary of Defense and member of the U.S. SALT delegation 1969-74 has provided some useful insights into Soviet negotiating techniques. Specific tactics employed by the USSR in the recent SALT negotiations include "endless repetition," employing exceedingly tough proposals so as to create bargaining room, and making concessions only for equal or greater concessions from the other side. Two tactics with shock value, presumably designed to weary the opponent, were the tendency to suddenly embrace a stronger position rather than compromise, and the technique of rapidly shifting the subjects of negotiation back and forth. Nitze has also illuminated some of the more subtle devices employed by the Soviets:

In the actual substantive negotiations, they employed an amazing tactical versatility. They used words in other than their normally accepted sense, or quotations out of context or subtly modified, and exploited the differences in nuance between Russian words and their English equivalents. They would use imprecise language in presenting provisions which would limit their side and precise language where the object was to limit U.S. actions.<sup>1</sup>

These comments by Nitze, and observations by others experienced in negotiations with the USSR suggest that at least with respect to political-military issues, the goal of finding compromise and making an agreement with Soviet negotiators is rather difficult unless they feel themselves to

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<sup>1</sup> Ibid. p. XV.

be in a position of relative weakness and find agreements strictly to their advantage. One other factor hampering negotiations with the Soviets is the fact that their delegation is rarely granted much authority, flexibility and power of initiative in the talks. They are in constant rapport with members of the CPSU hierarchy and are quite limited in their ability to explore new proposals and considerations until their superiors have done so.

**APPENDIX C**

## APPENDIX C

### U.S.-SOVIET BLOC TRADE IN THE POSTWAR PERIOD

Expansion of economic activity between the United States and the Soviet Union has been accepted by both nations as an integral component of the normalization of their relations. As stated in the Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics signed on 29 May 1972:

The United States and the Soviet Union regard commercial and economic ties as an important and necessary element in the strengthening of their bilateral relations and thus will actively promote the growth of such ties. They will facilitate cooperation between the relevant organizations and enterprises of the two countries and the conclusion of appropriate agreements, including long-term ones.

The history of U.S. trade with the Soviet bloc, in the post-World War II period, in fact, is closely linked with political relations and economic sanctions aimed at isolating the bloc nations from the advantages of trade with the West. These sanctions were added to the regulations and restrictions imposed by the government on foreign commerce in general.

At the onset of the Cold War, U.S. legislation covering foreign trade and investment was aimed at denying strategic goods to the Soviet bloc or included provisions which singled out Soviet bloc nations for discriminatory treatment. In 1948, when the restrictions of the Johnson Debt Default Act on extension of credit to foreign states in default on obligations to the U.S. were lifted for members of the IMF and IBRD, these restrictions remained vis-a-vis the Soviet Bloc. In 1949, the Export Control Act instituted a system of export licensing designed to prohibit

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<sup>1</sup> Weekly Compilation of Presidential Documents (5 June 1972), p. 943.

the export of goods vital to U.S. national security, both because of short domestic supply and value to military production capabilities of importing nations. The denial of export licenses was concentrated mainly in regard to transactions with Soviet bloc countries. The Battle Act (Mutual Defense Assistance Act of 1950) authorized the termination of assistance to countries which act as suppliers of strategic goods to the Eastern Bloc and resulted in the formation of COCOM (the NATO countries less Iceland plus Japan) to effect the extension of export controls to U.S. allies. The Trade Agreement Extension Act, in 1951, revoked Most Favored Nation Status for all Communist nations (restored to Poland and Yugoslavia in 1962, Romania in 1975) and thus U.S. imports from these nations were subject to the Smoot-Hawley Tariff of 1930--prohibitively high in the case of fabricated goods.<sup>1</sup>

In the late 1950's and 1960's, the stringency in implementing this legislation was somewhat relaxed. Beginning in 1956, the number of items on the control lists was reduced. This was, in part, a response to the desire of Western Europeans to export to the USSR and, therefore, pressure was exerted to reduce the COCOM lists. U.S. export controls were reduced periodically to bring them into line with COCOM.

In 1963, the Johnson Act was reinterpreted by the Attorney General to exclude normal commercial credit--90-day notes tied to specific transactions. This reinterpretation permitted the very large grain sales to the Soviets following their disastrous 1963 harvest. A further opinion by the Attorney General in 1967 exempted other forms of commercial credit tied to specific transactions and the new interpretation prohibited only general purpose loans.

The extension of Export-Import Bank guarantees and credits to any country, including the USSR, aiding a nation engaged in armed conflict with

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<sup>1</sup> See Franklyn D. Holzman, "East-West Trade and Investment Policy Issues: Past and Future," in U.S. Congress Joint Economic Committee, Soviet Economic Prospects for the Seventies, USGPO, 1973, pp. 661-676.

the U.S. (i.e., North Vietnam) was prohibited by the Fino Amendment in 1968. The liberalized Export Administration Act of 1969, however, in response to the requests of the U.S. business community, was enacted expressly to facilitate expanded trade with the Soviet bloc. Western European trade with the USSR was already expanding markedly by the late 1960's. While this U.S. legislation preceded any significant measure of political normalization and its spirit was indeed at odds with the Fino Amendment, the action really reflected the demonstration by Western Europe of the possibilities of peaceful trade across ideological lines and the rejection of denial of assistance to Communist economies as opposed to supply of strategic goods as a major purpose of export control. The idea of 'building bridges to the East' through expanded trade with the Soviet bloc had already resulted in the introduction of East-West trade legislation (East-West Trade Relations Bill of 1966 and 1969) but without success due to the sentiments embodied in the Fino Amendment.<sup>1</sup>

In 1971, the Fino Amendment was altered by the Export Expansion Finance Act which permitted the President to authorize extension of government export credits and guarantees to Communist nations if he deemed it to be in the interests of the U.S. With the signing of the Basic Principles of Relations in May 1972 and then the U.S.-USSR trade agreement in October, this authorization was granted on October 18, 1972.

The Trade Reform Act of 1974 and amendments to the Export-Import Bank Act at the time of its extension in early 1975 sought to ensure mutual benefit in U.S.-USSR trade through increased monitoring by the Congress of the conduct of commerce with state traders and of the explicit exaction of concessions on emigration policies of Soviet bloc nations. Viewing Export-Import Bank credits as subsidizing the Soviet economy and the extension of credits for energy projects in the USSR as an opening for

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<sup>1</sup> See Edward T. Wilson et al., "US-Soviet Commercial Relations," in U.S. Congress, JEC, op. cit., pp. 641-643.

Soviet leverage on the U.S., stringent limits were imposed by Congress. Any transaction of \$50,000,000 or more with a Communist country requires a separate determination by the President and reported to the Congress that the loan is in the national interest. A limit of \$300,000,000 over four years on new loans to the USSR was imposed, to be extended only upon Congressional approval of a report by the President that such an additional credit is in the national interest. Credit for production, processing and distribution of fossil fuel energy resources in the USSR was prohibited. Credit for research and exploration of fossil fuel energy resources in the USSR was limited to not more than \$40,000,000. These limitations are in sharp contrast to the more than \$8 billion in government-backed credits proffered to the Soviets at approximately the same time by Western Europe and Japan.<sup>1</sup> In 1973 and 1974 Eximbank had already extended over \$460,000,000 in credit to the USSR and the \$300,000,000 limit was to extend for four years.<sup>2</sup>

The Trade Act denied even these limited Eximbank credits to the USSR. These credits, as well as Most Favored Nation status, were denied to the Soviet bloc except for Poland and Yugoslavia (already receiving MFN since 1962). This was achieved via the Jackson-Vanik Amendment which stipulated changes in emigration policies as conditions for signing Trade Agreements, granting MFN status, and extending Eximbank loans. The procedures for waiving the stipulations and certifying that they are being met are designed to ensure Congressional participation and periodic reevaluation in order that the Congress can monitor the continuing political benefit of normalized economic relations. The Trade Reform Act of 1974 also incorporated market disruption clauses which apply specifically to non-market countries, which are discussed in Chapter IV.

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<sup>1</sup> See J. Cruse and D. Wigg, "The Role of Eximbank in US Exports and East-West Trade," in P. Marer, ed., U.S. Financing of East-West Trade, Indiana University, 1975, p. 72.

<sup>2</sup> See P. Marer, op. cit., p. 39, for details of Eximbank loans to finance exports to the USSR.

**APPENDIX D**

**APPENDIX D: SOVIET IMPORTS IN 1975**

	Total Soviet Imports (Thousands Rubles)	Soviet Imports of Machinery and Equipment (Thousands Rubles)	Share of Total Soviet Imports (Percent)*	Share of Soviet Imports of M&E (Percent)*	Share of Total Soviet Imports from OECD (Percent)*	Share of Total Soviet Imports of M&E from OECD (Percent)*
TOTAL	26,669,200	9,045,686	100.0	100.0	100.0	100.0
From:						
OECD	9,375,500	3,616,822	35.2	40.0	2.4	2.2
Austria	226,600	81,052	.8	.9	3.1	.8
Belgium	286,600	29,002	1.1	.3	4.7	.5
Canada	439,300	19,619	1.6	.2	—	—
Denmark	40,400	22,809	.1	.2	.4	.6
Finland	837,300	312,540	3.1	3.5	8.9	8.6
France	800,800	425,052	3.0	4.7	8.5	11.8
Germany	1,948,000	1,025,610	7.3	11.3	20.8	28.4
Greece	56,300	—	.2	—	.6	—
Iceland	24,100	—	.1	—	.3	—
Ireland	20,400	36	.1	—	.2	—
Italy	788,800	312,147	3.0	3.4	8.4	8.6
Japan	1,235,500	442,078	4.6	4.9	13.2	12.2
Luxembourg	15,800	—	.1	—	.2	—
Netherlands	147,200	44,867	.6	.5	1.6	1.2
Norway	65,900	16,595	.2	.2	.7	.5
Portugal	13,000	—	.05	—	.1	—
Spain	45,400	—	.2	—	.5	—
Sweden	255,900	134,703	1.0	1.5	2.7	3.7
Switzerland	240,800	146,451	.9	1.6	2.6	4.0
Turkey	57,100	—	.2	—	.6	—
United Kingdom	368,200	149,973	1.4	1.7	3.9	4.2
United States	1,462,100	454,288	5.5	5.0	15.6	12.6

\* Columns may not sum to 100 due to rounding.

DATA:

Ministry of Foreign Trade, USSR, *Vneshnyaya torgovlya SSSR v 1975 g., statisticheskii sbornik*, (Moscow, 1976).

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